



Studies in Contemporary Russia

FEDERALISM AND REGIONAL POLICY IN CONTEMPORARY RUSSIA

Andrey Starodubtsev



Federalism and Regional Policy in Contemporary Russia

How do Russian leaders balance the need to decentralize governance in a socially and politically complex country with the need to guarantee political control of the state?

Since the early 2000s Russian federal authorities have arranged a system of political control on regional elites and their leaders, providing a “police control” of special bodies subordinated by the federal center on policy implementation in the regions. Different mechanisms of fiscal federalism and investment policy have been used to ensure regional elites’ loyalty and a politically centralized but administratively decentralized system has been created.

Asking clear, direct, and theoretically informed questions about the relationship between federalism, decentralization, and authoritarianism, this book explores the political survival of authoritarian leaders, the determinants of policy formulation, and theories of federalism and decentralization, to reach a new understanding of territorial governance in contemporary Russia. As such, it is an important work for students and researchers in Russian studies and regional and federal studies.

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The variety of opinions on these issues is vast. Some see increasingly less difference between contemporary Russia and the Soviet Union while, at the other extreme, prominent experts regard Russia as a ‘more or less’ normal European state. At the same time new variants of modernisation are espoused as a result of Russian membership of the global BRIC powers. Combining aspects of Western and Soviet modernisation with some anti-modern or traditional tendencies the Russian case is ideal for probing deeper into the evolving nature of modernisation. Which of the available courses Russia will follow remains an open question, but these trajectories provide the alternatives available for discussion in this ground-breaking and authoritative series.

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To Anna Fomina, my best friend and partner, with love and gratitude



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Preface

In his classic book on federalism (1964), William Riker presented a brief two-page analysis of the process of the Soviet Union's formation as a federal state, setting it alongside not only Yugoslavia, but also West Germany, Austria, and Switzerland. In response to the obvious question from all those who were surprised by the statement that an unfree state, one practicing mass terror and forced displacement of peoples, as a polity, complied with the principles of self-rule and shared rule, Riker noted:

Since 1923 the Soviet Union has been highly centralized and for that reason many scholars have refused to call it a federalism. This refusal is, however, merely the expression of the American-Commonwealth mythology that federalism ought to prevent tyranny. Since the Soviet Union preserved all the features of federalism, the mere fact that its federalism fails to prevent tyranny should not lead to casting it out of the class of federalism. Rather it should lead to a re-evaluation of what federalism means and implies.

(Riker, 1964: 39–40)

Although I completely disagree with the statement that “the Soviet Union preserved all the features of federalism,” I have always interpreted this paragraph as Riker suggesting that we should examine the features of territorial governance in states that are simultaneously complex (with a large territory, plural society, etc.), and not democratic. It is the desire to understand how one should manage a country that, though born to be a federation, has not realized the federal canon, that compelled me to write this work.

This book is focused on Russia, a country that claims a federal structure in its constitution and its full name, but which has not for a single day been consistent with the classic principles of federalism. For many years, Russia has served as an example of the contemporary authoritarian state for the world of political science. The shift in politics research from studying the formation, development, and changes of its political regime to studying how that regime influences the functioning of the state and society has reserved Russia's position as a “crucial case” for many years to come. For me, the Russian case is important because it clearly shows how the central government forms a territorial governance system

as the authoritarian regime grows stronger, how it solves its immediate administrative tasks, and what political constraints it frequently faces.

The book is based on the materials of a number of studies of the political factors of territorial governance in Russia. The first of them, “*Tertius gaudens: Circumstances of Formation of a Federal State in Russia*,” was conducted in 2002–2005 at the Faculty of Political and Social Sciences, Petrozavodsk State University. The second, “*The Political and Socio-Economic Factors of the Implementation of Regional Policy in the Russian Federation*,” was carried out at the Faculty of Political Sciences and Sociology, European University at St Petersburg (EUSP) in 2005–2009. Finally, the third project, on the problems of centralization and decentralization of public administration under the conditions of authoritarian institutions, was begun in 2009 with the support of the Center for Modernization Studies EUSP and continued in 2013 at the Aleksanteri Institute, University of Helsinki, within the framework of the “*Centre of Excellence ‘Choices of Russian Modernization’*” project, and of the “*Regimes, Institutions, and Change: Politics and Governance in Russia in a Comparative Perspective*” project as part of the Finland Distinguished Professor Programme, implemented with the support of the Academy of Finland.

I was fortunate enough to present and discuss the interim results of my work at the great research centers studying Russian politics from a comparative perspective. I am grateful to the encouraging staff of the Aleksanteri Institute, University of Helsinki, for their continued support and excellent organization of research activities, the Center for Modernization Studies, EUSP, for its interesting discussions of development and political changes, and the National Research University Higher School of Economics (St Petersburg) for its wonderful students.

I would like to thank Vladimir Gel'man, professor at the European University at St Petersburg and the University of Helsinki; his advice and support, as well as his articles and books, are regularly of significant help to me in my research activities. I also thank those who provided me with assistance at the various stages of the research and preparation of the manuscript: Maria Nozhenko, Grigorii Golosov, Irina Busygina, Mikhail Filippov, Andrey Zakharov, Markku Kivinen, Oleg Podvintsev, Alexander Sungurov, Anna Tarasenko, Dmitry Travin, Anton Shirikov, and Andrey Yushkov for ideas and comments that have allowed me to develop and specify important points; Natalia Shkaeva, Elizaveta Potapova, Viktoria Poltoratskaya, and Lyubov Altukhova for inspiring joint projects; Ivan Grigoriev and Anna Dekalchuk for their companionship and assistance in data collection; and Alexei Stephenson for his thoughtful and patient linguistic assistance. I thank my parents, Vladimir Starodubtsev and Valentina Starodubtseva, for supporting all my endeavors. Of course, these people are not responsible for my inaccuracies, omissions, or errors. At the same time, I would like to share with them all of the best that the book has to offer.



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Introduction

The relations between the federal center and regional governments have always been an integral part of the political process in Russia and an important factor in its outcomes. The collapse of the Soviet Union, two wars in Chechnya and peacekeeping in other ethnic administrative units, the political struggle between the pro-regional party “Fatherhood—All Russia” (*Otechestvo—Vsyä Rossiya*, OVR) and the pro-centrist “Union” (*Edinstvo*), Vladimir Putin’s two federal reforms, and even the hostage crises in Beslan, North Ossetia—these and many other events have all drastically influenced the results of the political process in Russia since the beginning of the 1990s.

From the perspective of the mid-2010s, when the governors mainly play the role of the Russian President’s representatives in the regions, when regional elites compete with each other to demonstrate the highest degree of loyalty to the federal center, especially in the electoral process, when regional autonomy is discussed predominantly among scholars and oppositional politicians in Moscow and St Petersburg, but not in the regions, it seems surprising to see regional politics and intergovernmental relations as such significant independent variables when it comes to explaining the national political process.

How did the federal center generate such changes in the political tactics and strategies of the regional elites and gain their complete loyalty as a result? Scholars have scrutinized this question extensively. By the end of the 1990s, regional leaders had become politically strong actors able to influence the effectiveness of public administration in Russia (Stoner-Weiss, 1999, 2002), and even tried to seize the majority in the federal parliament, and the post of the federal president in 1999–2000. At the turn of the century, the Kremlin used the threat of terrorists from the Chechen Republic and the electoral popularity of Vladimir Putin to ensure the pro-centrist party’s majority in the parliament and then deprive the regional governors of administrative, financial, and political resources (Reddaway and Orttung, 2005; Gel’man, 2009). The center’s strategy of the struggle with disobedient governors included the centralization of different components of intergovernmental relations (for instance, the system of law enforcement (Taylor, 2007)) and the realization of policy measures in the field of electoral and party systems (Golosov, 2011).

These explanations place the center’s policy on the Russian regions within the context of forming and preserving the authoritarian political regime. While I

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agree with the importance of political struggle and regime formation for the development of federalism and regional policy in Russia, I have to note that this approach reduces the factors and effects of intergovernmental relations to pure politics. At the same time, the particularities of intergovernmental relations in the spheres of fiscal federalism, regional policy, and administrative functions of each tier of government in Russia are left outside the frame of such an analysis.

On the other hand, there is a wealth of literature that observes and analyzes intergovernmental relations in isolation from political factors and consequences. The authors examine the federal government's measures in the fields of distribution of competences, fiscal flows and financial transfers, and special programs of regional development, without taking into account the particularities of regime changes and political struggle (De Silva et al., 2009; Zubarevich, 2010). In this case, ineffective and inconsistent actions by policy-makers are explained through the "bad governance" of the bureaucracy, which is unable to develop appropriate measures to achieve difficult objectives.

Finally, there are many works devoted to political determinants of the financial dimension of intergovernmental relations (Treisman, 2001; Popov, 2004; Sharafutdinova and Turovsky, 2016; Turovsky and Gaivoronsky, 2017). These projects combine political and policy dimensions of intergovernmental relations, but they do not place this analysis in the context of causes and effects of federal relations and regional development policy.

This book seeks to explain the dynamics of intergovernmental relations in Russia in the 1990s–2010s by combining the three dimensions of territorial governance—dynamics of political relations between the center and the subnational units, particularities of the federal government's regional development policy, and changes in the administrative system of intergovernmental control, coordination, and subordination.

The puzzle at the heart of this book is derived from the ambiguous link between the type of political regime and the nature of the vertical distribution of power. A decentralized system is characterized by complex interrelations between a number of actors. As a result, such a system theoretically promotes competitive, polycentric, and unpredictable political outcomes. Authoritarianism urges politicians to prevent the appearance of alternative political actors, whom they would not be able to control. We can therefore expect that decentralization and federalism contradict the interests of authoritarian leaders, and that they would prefer to reduce, or even eliminate, decentralization within their states.

However, we know that decentralization and federalism are not always a matter of choice for institution-builders. Federalism, for example, is often promoted as a response to challenges concerning complex ethnic or religious compositions, an expansive territory, or economic disparities between regions. Consequently, authoritarian leaders are forced to accept decentralization while sustaining a monocentric political regime.

How is this contradiction possible? What strategies do authoritarian leaders choose in order to balance the need to decentralize with the need to guarantee desired political outcomes? What elements of the political system do they use to

decrease the regional elites' opportunities to challenge them? On the whole, what factors define intergovernmental relations and strategies in plural and economically complex societies under authoritarian regimes?

Federalism, decentralization, and intergovernmental relations

Constitutionally, Russia is a federal state. Usually, federations are defined by a set of principles of relations between central and regional governmental tiers. It would be impossible to claim that all these principles are agreed on by most scholars and practitioners, but there is consensus about the minimum features of a federation.

A classic definition of a federal state was formulated by William H. Riker (1964: 11):

A constitution is federal if (1) two levels of government rule the same land and people, (2) each level has at least one area of action in which it is autonomous, and (3) there is some guarantee (even though merely a statement in the constitution) of the autonomy of each government in its own sphere.

According to his definition, delegating just one sphere of competence to a lower governmental level is enough to make a country federal. Yet now—in the age of decentralization—it would be difficult to find a state that does not satisfy this minimal requirement. Thus, I believe that the most important part of Riker's approach to federalism is the requirement to have a constitutional guarantee of the distribution of competences. While delegation of powers is a widespread practice of modern public administration, constitutional protection of regional autonomy in certain spheres is a necessary condition to define a state as federal. But it is not a sufficient condition.

The existence of regional authorities' responsibilities does not necessarily lead to their independence during political and policy decision-making. If governors are appointed by the central government, they come under the federal center's control. This means that the center has the opportunity to dictate its will to regional governments even if they possess all the rights needed to govern independently within a policy field.

This is why Mikhail Filippov, Peter Ordeshook, and Olga Shvetsova (2004: 9) consider,

a state is federal if its governmental structure can be characterized by multiple layers (generally national, regional, and local) such that at each level the chief policy makers—governors, presidents, prime ministers, judges—are elected directly by the people they ostensibly serve or (as with judges) appointed by public officials thus directly elected at that level.

The existence of own responsibilities together with the regional communities' possibility to independently elect or appoint chief policy-makers form the full-scale

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autonomy of a subnational government. This is indeed a key principle of federalism. At the same time, while agreeing with Riker's requirement of guaranteeing subnational autonomy, Daniel Elazar (1987) develops the idea of "shared rule" in federations. According to this principle, subnational elites and communities can potentially control the central authorities' decisions, and even have their interests represented through different channels in order to resist policy proposals that would centralize government within the country.

Thus, three basic institutional features of a federal state are (1) constitutional distribution of responsibilities between national (central) and subnational governments; (2) election of policy chiefs at a subnational level; (3) subnational units' participation in the national process of policy-making. Obviously, together these features constitute the rules of an extremely competitive game. Riker insists that federal relations should be seen as "bargaining" that includes a central government on the one hand, and regional elites on the other (Riker, 1964; Filippov, 2005). Hence, a federal arrangement does not assume subordination of one level of government to another. Federal relations are implemented through a process of negotiation and collaboration. Elazar has developed a radical version of this idea: he suggests that one should speak of *non*-centralization instead of *decentralization* of power in federal states (Elazar, 1976).

Such an understanding of federalism means its close connection with democracy as a system that supports political pluralism. While authoritarian regimes are characterized by the reduction of the space of political competitiveness, federalism demands that alternative actors, often oppositional to the federal rulers, exist in the political system, and that some of them have the position of veto actors in specific policy fields. Numerous studies on maintaining "robust" federations explicitly or implicitly confirm the importance of democratic institutions to ensure the stability of federal bargains (Riker, 1964; Lijphart, 1977; Filippov et al., 2004; Bednar, 2009).

This is why "federation" is a very narrow term for describing the great diversity of decentralized systems in the world, particularly those that appeared in the second half of the twentieth century and those with authoritarian political regimes. Many countries have enjoyed decentralization, but not federalization (Litvack et al., 1998; Falleti, 2010).

Out of the many definitions of decentralization, I follow Tulia Falleti's, which describes decentralization as "a process of state reform composed by a set of public policies that transfer responsibilities, resources, or authority from higher to lower levels of government in the context of a specific type of state" (Falleti, 2005: 328). This definition clearly distinguishes between decentralization and federalism. While federal relations concentrate on the political and administrative dimensions of government, decentralization additionally covers fiscal relations (Prud'homme, 1995; Rodden, 2004; Treisman, 2007; Falleti, 2010).

From this perspective, federalism can be seen as a form of decentralization, one of a number of options in the arsenal of a country's policy-makers. This approach to federalism contrasts with another view, which analyzes a federal system as a union of former sovereign states that agree to transfer part of their powers to a higher level to provide for their own defense or favorable positions in

the world economy (the reasons for such behavior among states' elites are wonderfully explained in *The Federalist Papers*). The fact is that, in the twentieth and twenty-first centuries, federalism has appeared mainly as a product of decentralization, while examples of centralization are exceptional (Stepan, 2005).

Usually national elites prefer centralized systems to decentralized ones. They are ready to limit their own power in favor of subnational governments only when facing truly harsh problems, ones that cannot be resolved without decentralization. Studies demonstrate that decentralization (including federalization) happens as an attempt to overcome two sets of problems—ineffectiveness of public administration (Tiebout, 1956; World Bank, 2009; Rodden, 2004), and political instability caused by conflicts in plural societies (Lijphart, 1977; Horowitz, 1985). Tulia Falleti in her investigation of decentralization in the states of Latin America (2005, 2010) shows that central and regional governments bargain for the most beneficial conditions of decentralization (as Riker demonstrated the same type of bargaining in federalization). Every time, this competition leads to a distinct type of equilibrium that results from the resources and strategies of both players. This means that decentralization should not be seen as a process that works exclusively in regional governments' interests. Central authorities seek to create relations with lower tiers that decrease real regional autonomy even within the frameworks of decentralization. Hence, it is an important research goal to study how both central and regional governments build their strategies to ensure an advantageous form of decentralization.

Such an analysis demands that a researcher should not restrict himself or herself by studying a single dimension of relations between governmental tiers. The struggle for autonomy and control includes all dimensions—administrative, financial, and political. That is why I use the concept of intergovernmental relations developed by Deil S. Wright (1978), who defines them as a permanent process of interactions between officials (both politicians and bureaucrats) at different governmental levels (national, subnational, and local) in regard to public policy-making and implementation. Wright insists that intergovernmental relations should not be considered as limited to producing formal regulations in central, regional, or local agencies. Rather, they are realized through processes of officials' formal and informal interactions.

This book is about the development of intergovernmental relations in Russia through a series of particular political circumstances. I am going to revisit all the particularities of (de)centralization in the 1990s, 2000s, and 2010s in order to understand how they have influenced Russia's balance of power. The existence of decentralized and federal systems should be confirmed in terms of a specific type of intergovernmental relations. I am seeking to find out what they are and how the political process in Russia has influenced them.

Anchored in politics and suffused with policy

Wright writes: "From its origins in the 1930s, IGR was recognized as anchored in politics and suffused with policy" (Wright, 1978: 3). It is this peculiarity of

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intergovernmental relations that leads me now to outline theoretical insights into the complex relations between political struggle and public policy in modern political systems.

In political science, one influential perspective is that policy is caused by numerous political factors. This tradition of thought is best embodied in Anthony Downs's work *An Economic Theory of Democracy* (1957), which develops the very popular thesis that politicians are mainly interested in maximizing electoral support for themselves or their political parties. According to this thesis, public policy is a tool used to achieve that goal:

Political parties in a democracy formulate policy strictly as a means of gaining votes. They do not seek to gain office in order to carry out certain preconceived policies or serve any particular interest groups; rather they formulate policies and serve interest groups in order to gain office. Thus their social function—which is to formulate and carry out policies when in power as the government—is accomplished as by-product of their private motive—which is to attain the income, power, and prestige of being in office.

(Downs, 1957: 137)

Driven by their political interests, politicians tend to implement the policy measures that will be most popular with the electorate and/or influential interest groups. The role of ideologies and programs is completely utilitarian. As Downs writes, “lack of information creates a demand for ideologies in the electorate. [...] Each party invents an ideology in order to attract the votes of those citizens who wish to cut costs by voting ideologically” (1957: 142). If ideologies are interchangeable, one should not overestimate the significance of political and policy programs—their role is merely to help a voter differentiate one candidate from another. In theory, bureaucracy is meant to align public policy with the strategic goals of societal development, but in Downs's perspective it is subordinated to politicians: a political leader can dismiss a bureaucrat if his or her actions contradict that leader's interests.

The Downsian perspective has undergone criticism from both sides. Some scholars argue against the predominance of electoral interests in policy-making, while others insist that relations between politics and policy are more complex—that politics is affected by policy as well.

To explain the first line of the criticism I use the neoinstitutional approach to understanding public policy-making. Douglas North claims that political actors' actions are directed by the combination of their interests and the institutional environment in which the actors have to make their decisions (North, 1990). Institutions are defined in North's classic phrase as “the humanly devised constraints that structure political, economic and social interaction” (1990: 97), and perform a crucial function—they decrease an actor's uncertainty as he or she makes a political or policy decision. Thus, institutions eliminate alternatives that do not correspond with existing formal and informal rules.

The second element of the neoinstitutional framework, actors' preferences, can be analyzed from different perspectives. Downs and his supporters place *politicians' electoral interests* at the center of their analysis. At the same time, Douglas Hibbs (1977) demonstrates that, in the USA, the "left-leaning" administrations traditionally develop a policy of lower levels of unemployment and higher levels of inflation, while the "right's" policy is the opposite. This means that ideology matters in policy-making, at least in the context of a long-lived two-party democracy.

Donald Wittman (1983) develops the idea of a "synthesis theory": he supposes that electoral victory is a means that allows a politician to realize his or her political program. Hence, politicians have to compromise their programs to make them more attractive for voters and, at the same time, sketch out principles of public policy that will be implemented if that politician wins an election.

Following Alberto Alesina and his co-authors (Alesina et al., 1997), I will call Downs's tradition the "opportunistic model of policy implementation." The other tradition is usually named the "partisan model," but in the context of the Russian political reality, where parties do not perform the same role as they do in the Western political systems, it would be more appropriate to call it the "ideological model."

Obviously, both models are drawn analytically. We can hardly expect that politicians and other participants in political and policy processes will keep the same motivations and political strategies over a long period of time. I believe that actors are able to alter them according to changing institutional and structural environments. Below I will present some theoretical models that explain the domination of the opportunist interests of actors over the ideological ones, and vice versa.

The first important condition here is elections. According to William Nordhaus, the content of a public policy is affected by the fact of how soon the next election will come: "within an incumbent's term in office there is a predictable pattern of policy, starting with relative austerity in early years and ending with the potlatch right before elections" (Nordhaus, 1975: 187). This conception presupposes Downs's model. Elections here are the central element of the political process for an incumbent. However, they influence his or her behavior not throughout the entire term, but only during the period that is most important for being re-elected. The beginning of the term is the time of the highest level of electoral support, when the government can pursue a policy of austerity and implement even unpopular reforms. But the sooner the next election is, the more attention politicians have to pay to the electorate's will in order to ensure electoral success.

Nordhaus's conception is that all elections at the same governmental level influence actors identically. But the political reality demonstrates a difference between elections even if they are held at the same level. Let's imagine that a forthcoming election is accompanied by a high level of uncertainty about the political future of a state. For example, in early post-Soviet Russia, many people feared that a victory by Gennady Zyuganov, the leader of the Communist Party

of the Russian Federation (“the communists,” KPRF) would mean the revival of the command economy and the communist political regime. Under those circumstances, the behavior of all actors subordinated to the incumbent would be opportunistic. They would use all their resources to ensure the victory of the incumbent and save their current institutions. If an incumbent had good chances of being re-elected, or if a challenger’s program were quite close to the incumbent’s, other actors (including the bureaucracy) would keep a neutral position and implement an ideologically driven policy even in the pre-election period.

Unlike Downs and Nordhaus, representatives of policy studies claim that politicians are not the only group of influential actors in the policy process. Theodor Lowi demonstrates that a policy is a result of connections between various groups of actors whose interests can be completely different (Lowi, 1964). At the theoretical level, this argument is often described with the image of “the iron triangle.” There are three functional groups of actors that design and implement a public policy: politicians (who make policy programs and specific decisions and control their implementation), bureaucrats (who implement these decisions), and interest groups (which represent groups whose interests are affected by a policy measure). Every side of this triangle reflects different interests: politicians want to be re-elected, bureaucrats seek to provide a stable and effective policy, and interest groups aim to successfully protect their interests.

Downs insists that politicians are omnipotent: they completely control bureaucrats and listen to interest groups only as far as the latter can provide electoral support. Lowi responds that the bureaucracy should be considered as an independent political actor that is able to influence policy-making. The fact that the electorate elects a politician, but not the bureaucrats, is the main reason why bureaucracy has been growing stronger in contemporary democratic countries (Heady, 2001). Additionally, bureaucracy becomes stronger due to the increasing complexity of management in modern states and, as a result, the aggravation of the principal–agent problem (De Groot, 1988; Weingast, 1984). Because of information asymmetry, politicians (principals) have to rely on bureaucrats (agents), not only delegating the process of implementation of decisions to them, but also widening the scope of bureaucratic discretion. Thus, sometimes an administratively strong bureaucracy is thought to be able to provide an ideologically, but not electorally, driven policy.

The third group of participants in any political system is interest groups, which use all their resources to ensure the implementation of the most favorable policy. Scientists assess their role in the political system in extremely different ways: some (mainly political scientists) consider interest groups’ actions to be one of the main characteristics of democratic government (Dahl, 2000), while others (predominantly economists) proclaim them to be the cause of institutional sclerosis in developed countries (Olson, 1982). In short, influential groups can be analyzed as lobbyists who encourage the opportunistic behavior of politicians, or as experts who help a government provide the most effective policy decisions.

The idea of “the iron triangle” presents politicians, bureaucrats, and interest groups as actors that produce public policy in the process of implicit or explicit

opposition to each other. At the same time, Paul Sabatier and his numerous followers have found a number of policies to be based on the actions of “advocacy coalitions.” They include representatives of these three groups, along with experts and advisors, journalists, and other participants of the policy process in a specific policy subsystem (Sabatier, 1988; Sabatier and Weible, 2007). Thus, Sabatier indicates that policy-making is the product of a struggle between coalitions of supporters and opponents of a specific policy decision. Different participants in such coalitions can have different motivations. That is why every policy measure can theoretically satisfy both political and ideological interests at the same time.

As such, it is obvious that the opportunistic potential of a decision depends on a number of participants included in the policy-making process. George Tsebelis (2002), Arend Lijphart (2007), and Simon Hix (2006) support this position. They propose answering two questions to analyze the policy process: how many actors are able to (1) initiate political decisions, and (2) block a change in policy? If there is a single actor who is able to change the agenda without consulting with other actors, this system should be called majoritarian. But if there are several actors who are able to initiate or block policy alternatives, and the consent of these actors is the single opportunity to adopt an alternative, this is a consensus system.

A consensus system hampers politicians’ opportunistic strategies. Every influential actor is able to block a politically motivated decision by another participant in the political process. Under these circumstances, collective decisions will be oriented toward solving social problems rather than satisfying actors’ political interests. There are a few pure consensus systems in the world, but many states use individual elements of consensus systems in their institutional designs—parliamentary and multi-party systems, federalism, the pluralistic model of interest representation, and so on. They all increase the number of participants in the policy process and create unfavorable conditions for opportunistic behavior. Majoritarian systems are favorable for incumbents’ use of opportunistic strategies.

Thus, one line of discussion based on Downs’s view on political process draws a picture of complex interactions between numerous actors who pursue their own rational interests and own beliefs concerning the effectiveness of a policy alternative for public development. While the victory of one actor over another is explained by the resource opportunities of these participants in the policy process, the balance of rational interests and (ideological) beliefs in policy programs and specific measures proposed by an actor is affected by the structural opportunities and institutional environment that characterize a policy process and policy subsystem.

Another line of criticism comes from the work *Politics, Pressures and the Tariff* by Elmer Eric Schattschneider (1935). He and his followers argue for the existence of a “policy feedback effect”: “Public policies are not merely products of politics but also shape the political arena and the possibilities for further policy making” (Campbell, 2012: 334). This is not a simple assertion that a

public policy implemented by politicians influences the results of subsequent electoral cycles. Policy feedback studies demonstrate how public policies can be shaped to fit interests among actors, how different governmental measures change the balance of power in the political arena, and how policy transforms the tactics and strategies of influential players, including interest groups and political entrepreneurs, on the political field (Skocpol, 1992; Pierson, 1993; Campbell, 2012). In turn, these numerous changes are able to influence electoral results.

These two traditions—Downsian and Schattschneiderian—by no means contradict each other. I theorize that there is a cycle of politics–policy influence relevant to both elite and mass levels. The results of an electoral cycle generate a specific type of public policy, which reflects the policy program of the new ruling party or politician and their electorates. Then these policy measures restructure the political arena and/or electoral attitudes, which go on to affect the results of the next electoral cycle.

There is a condition that unites all of the theoretical conceptions briefly summarized above—the fundamental importance of elections for the development of a political system. Strictly speaking, these theories analyze the relationship between public policy and politics in consolidated democracies. At the same time, in the 1990s and 2000s an increasing number of countries, including Russia, were forming and developing non-democratic regimes (Magaloni and Kricheli, 2010). To understand how the policy process works under non-democratic conditions is a challenge for contemporary political science.

In the second half of the twentieth century, there was a popular idea among numerous observers that authoritarian states provide a better economic performance than democracies. This effect was supposed to be a result of the strong influence of politics on public policy-making in democratic countries. Democratic governments constantly suffer from pressures from the electorate, interest groups, coalition partners, and so on.

On the other hand, authoritarian regimes are able to provide so-called insulation of government (Evans, 1995), which is to say they are able to establish and promote political and economic institutions that allow government officials to implement desired policy and policy changes without considering political and institutional constraints. They create “pockets of efficiency,” special governmental agencies of state-controlled companies, which operate within a deliberately designed political and legal environment different from that of most of the business and governmental agencies in that country (Geddes, 1994). The success stories of rapid economic growth in such countries as Romania, Brazil, Chile, Singapore, South Korea, Taiwan, and China inspire the supporters of this strategy of political development.

However, the idea of authoritarian modernization was already being discussed in the 1990s. Adam Przeworski formulated this as follows: “The ‘tigers’ have tended to be dictatorships. But are dictatorships necessarily tigers?” (Przeworski et al., 2000: 4). Among many authoritarian states, few have demonstrated a high level of economic and social performance. On the contrary, most of them suffer from gradual deterioration of their economies and living conditions.

There are many explanations for this problem. Adam Przeworski and his colleagues have developed the position that the features of a regime do not influence economic development or public policy concerning it. The real factor is the initial level of economic development at the beginning of a modernization project (Przeworski et al., 2000: 178). Those arguing for a theory of rational choice find the reasons for the poor performance of authoritarian governments' public policy in the rent-seeking behavior of dictators. They are ready to redistribute private goods only among those who are able to help or hamper them in preserving their power. Thus, societies with larger winning coalitions are richer than societies with smaller ones (Olson, 1993; Bueno de Mesquita et al., 2005).

Another explanation concerns the particularities of the authoritarian regimes that have been developing over the last half-century. Instead of classic authoritarian regimes, competitive (or electoral) authoritarianisms (i.e., regimes that, although authoritarian, incorporate elections that are meaningful, but unfair (Schedler, 2006; Levitsky and Way, 2010)) have emerged in many countries including Russia (Goloso, 2011; Gel'man, 2015a).

Recent studies demonstrate that the developmental potential of governments in these regimes is very limited. They face a situation where the worst features of democracies (the dependence of policy-makers on the electoral preferences of the population) are combined with those of authoritarianism (the absence of effective civic control, rent-seeking by both dictators and their bureaucracies, authoritarian patterns of decision-making). Forming pockets of efficiency under these circumstances is an expensive and dangerous strategy for a leader. He or she is able to apply it only to a few policy fields, those which are considered most important strategically. But the results of applying this strategy are again quite poor: an authoritarian leader is able to insulate the government from electorate and interest groups but he or she cannot protect it from low quality of public administration or rent-seeking behavior by governmental participants in the policy process (Gel'man, 2017; Gel'man and Starodubtsev, 2016).

Thus, contemporary authoritarianism does indeed complicate policy-making and public administration. Modern authoritarian governments face the same problems as democracies do, but the former can find few ways to overcome them using democratic mechanisms. From this perspective, this book's question concerns the problem of how leaders manage a policy process under the political circumstances of electoral authoritarianism.

Regime of (un)certainity

Russia is an authoritarian state. It is open for debate when the country underwent the shift from a very unstable and imperfect democratic regime to full-scale modern authoritarianism. Some insist that Russia has never been a democracy since the moment the Soviet Union collapsed (Gel'man, 2017); others contend that the regime change happened under the first presidency of Vladimir Putin.

I would support the first opinion. To my mind, the dissolution of the Russian parliament and the subsequent creation and adoption of the new constitution in

1993 laid the foundations for non-democratic institutions of political deliberation and competition. That is precisely why the presidential position—constitutionally, the center of power in the Russian political system—has never been taken by an oppositional candidate. The relatively low level of the parliament’s influence on political and policy processes in Russia, the president’s control of the government, the absence of democratic standards of electoral campaigning, including formal and informal rules on support from the mass media and financial contributors—all these characteristics produced the necessary electoral results for the incumbent in 1996 and his successor in 2000.

At the same time, I agree that, in the 2000–2005 period, Russia made a transition from one level of authoritarianism to another. While in the 1990s Boris Yeltsin’s advantages were based on the institutional foundation of the pro-presidential constitution and the absence of many democratic rules of the game, which could not possibly have been formed in a short period of relatively democratic government, during the 2000s President Vladimir Putin’s team strengthened existing authoritarian institutions and created new ones. If during the 1990s (especially after 1995) oppositional parties were able to achieve a parliamentary majority and use their position at least to criticize the government’s public policy and bargain for budget concessions, then in the 2000s and 2010s the president initiated a number of laws that significantly restricted opportunities for oppositional parties to participate in electoral processes and win political positions without the president’s agreement (Remington, 2006). Finally, there is a dramatic difference between how much the governments did to maintain civil rights in Russia between the two periods: where since 1993 Boris Yeltsin himself protected citizens’ rights concerning freedom of speech and assembly, Vladimir Putin established control over most independent sources of information and significantly limited freedom of expression.

According to scholars who study political regimes from a comparative perspective, post-Soviet Russia is an example of electoral (or competitive) authoritarianism, i.e., the political system combines the existence of significant electoral procedures and the government’s systematic violation of political and civil rights, aimed at keeping power in the incumbent’s hands. To capture the differences described above, I will follow Freedom House (FH)’s terminology and label the Russian political regime in the 1990s and at the beginning of the 2000s as “partly free” and the political regime since 2005 as “not free” (see Figure I.1).

While acknowledging the various doubts concerning the methodology of the FH index, I believe that FH’s experts demonstrate the dynamics of freedom and political regime development in the most appropriate way. Figure I.1 shows that the Russian political regime has never satisfied the standards of free countries. But in 1998, 2005, and 2015, the political situation radically changed and the regime became more authoritarian than before.

Authoritarian leaders and political elites are interested in keeping power in the hands of the authoritarian ruler as much as possible. This point does not contradict the mainstream vision of politicians’ interests in democracies, which came into fashion due to Anthony Downs (1957). I theorize that, under the

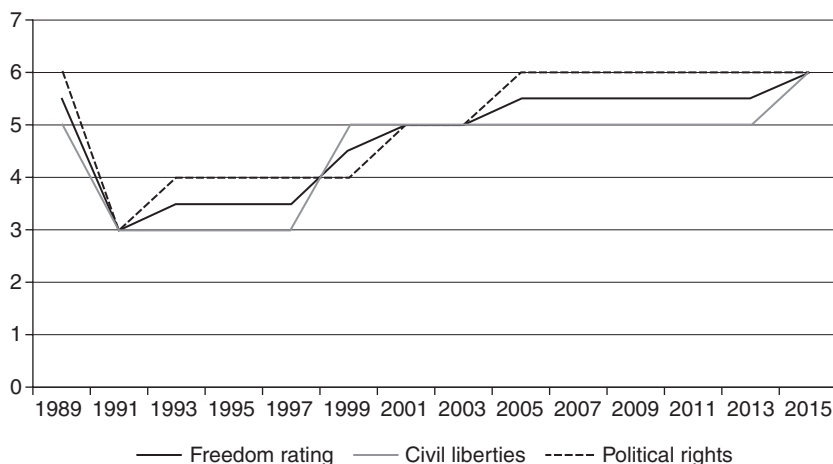


Figure I.1 The dynamics of freedom in the USSR and the Russian Federation.

Source: Freedom House (<https://freedomhouse.org/>).

conditions of electoral authoritarianism, this goal plays a more important role than in democracies because the price of losing for authoritarian rulers is higher than for democratic politicians. Hence, both democratic and authoritarian rulers will make use of every option to ensure their political survival, but we can expect that they will use different methods and strategies to achieve this goal.

This book does not claim to compare the strategies of political survival of democratic and authoritarian politicians. At the same time, the existing literature on contemporary electoral authoritarianism shows that a co-existence of democratic and authoritarian institutions leads to particular combinations of reactions from politicians to the challenges they face. This means that authoritarian rulers are able to choose instruments from both democratic and authoritarian repertoires of political action. These include repressions of various politicians and parties, the ability of ruling politicians to use the public administration for their own political purposes, and arbitrary changes in electoral and other institutions that restrict oppositional parties' ability to participate in elections and win them.

Under any regime, politicians are afraid of losing their power. They suffer from the significant political uncertainty that exists in every political system. Without doubt, uncertainty in democratic and authoritarian systems is different in essence. Valeri Bunce and Marja Csanádi find two types of uncertainty in democracies—procedural uncertainty and uncertainty of outcomes (Bunce and Csanádi, 1993). They propose that, in stable democratic regimes (“in a liberal setting”), “procedural certainty join[s] with uncertain outcomes,” and that during a transition from authoritarianism to democracy the level of procedural uncertainty is very high as well (1993: 266–268). We can analyze how these two forms of uncertainty change when it comes to authoritarian environments.

Authoritarian rulers enjoy the use of all available political and legal instruments to provide the electoral results they need to control a political system. Thus, elections are run through a mix of formal and informal practices that place oppositional parties in an environment of uncertain procedures. At the same time, electoral and other politically significant outcomes are made certain, if not for ordinary people, then for ruling politicians.

Andreas Schedler distinguishes two forms of uncertainty in electoral authoritarian states—institutional and informational. Institutional uncertainty suggests that rulers’ “hold on power is never secure” (2013: 1). Political opposition, potential betrayers among the members of their inner circle, a discontented society—all exist in authoritarian regimes and are genuine threats to a dictator’s power. It is clear that a hegemonic authoritarian regime is less uncertain institutionally than competitive authoritarianism, but neither can avoid this type of uncertainty.

The other form is informational uncertainty. This means that authoritarianism naturally suffers from a lack of information. This deficit is reproduced at every level. Citizens are restricted in expressing their views in the public space. Consequently, rulers do not know the real level of support for governmental actions in society. Authoritarian practices interfere with independent civic participation in policy-making. As a result, the government loses alternative means of control over officials, who are obliged to implement decisions formulated at a higher level. Authoritarian rulers face the classic principal–agent problem, which can be resolved through either the development of democratic mechanisms of accountability or the arrangement of a bulky and often ineffective apparatus of total control (McCubbins and Schwartz, 1984; McCubbins et al., 1989).

This discussion of regime uncertainty concerns not only politics, but public policy as well. Authoritarian rulers inevitably implement an opportunistic model of policy-making, since they are ready to use all resources and opportunities to protect their power. At the same time, authoritarian governments have to overcome numerous challenges concerning informational asymmetry, exacerbated by authoritarian institutions. These challenges force them to establish a specific system of public administration, which attempts to find balance through a trade-off between authoritarian leaders’ political and policy interests.

The argument

The following analysis will focus on the Russian leaders’ strategies of arrangement and management of intergovernmental relations. My key argument is that intergovernmental relations in Russia have been significantly determined by the dynamics of its political regime and the political interests of the representatives of the federal center, predominantly the Russian President. To prove this, I will observe the federal center’s policy in three areas of intergovernmental relations: (1) the distribution of responsibilities across levels of government in the 1990s and 2000s, (2) the practice of redistribution of federal financial transfers in the same periods, and (3) attempts to reform the patterns and principles of regional

policy in the 2000s. I will demonstrate how the center formulates the basic principles of a policy, and consider not only the officials' understanding of the most effective policy measures, but also federal politicians' political interests in keeping power and full political control over the Russian territory.

My research will demonstrate that, under the conditions of an authoritarian political regime, a level of political uncertainty affects the particularities of intergovernmental relations. High levels of uncertainty lead to increasing politicization of policies, while in a situation where federal politicians are surer of keeping their positions, they will allow federal bureaucrats to develop policy measures that reflect their beliefs concerning the most effective ways of governing.

At the same time, the existence of uncertainty in an authoritarian political process makes a ruler drastically transform the system of intergovernmental relations. A struggle with governors as potential representatives of the opposition leads to eliminating the institution of autonomous regional power. The governors become agents of the federal government in the regions. But this solution makes the intergovernmental relations more complicated, and at the end of the day this only aggravates the informational uncertainty of the ruler.

I will show how, over time, the logic of the authoritarian regime has forced the federal center to create an internally contradictory system of intergovernmental relations—decentralized, but unitary. I am sure that other actors could have used different strategies. The regional leaders, elites, and communities could have formed a real opposition to the federal center that deprived them of the rights of subnational units in a federal state. But this scenario was already rendered impossible during the Soviet period of Russian federal history. In the first chapter of the book I present a new approach to analyzing the development of federal relations in Russia from the 1980s through the 2000s. A comparison of Russian federalization with classic examples of federal states (the USA, Switzerland, Belgium, Spain, Nigeria) demonstrates that Russia has its own distinct pattern for the formation of a federal state. Unlike these other cases, the Russian center (but not regional or ethnic communities) was the initiator of federalization. The regional authorities exploited the political and financial weaknesses of their central counterparts in the 1990s, but they did not form a constitutionally decentralized political system. The effect of this on the current federal system is that it is now characterized by a politically and administratively strong federal center, and this resulted in the inability of subnational authorities to protect their autonomy in the 2000s.

The second chapter is devoted to how the formation of, and changes in, the Russian political regime have influenced federal relations since 1999. The political struggle with the regional elites in 1999–2000 was Vladimir Putin's first challenge as a head of state. The victory of politically strong governors allowed for a reduction in the number of alternative power centers and provided advanced control over electoral possibilities. I demonstrate that the logic of political survival of the federal elite was the primary reason for all (2000, 2004, and 2012) federative reforms in Russia.

Intergovernmental relations are not limited to the political struggle between governmental levels. Besides political and administrative dimensions, there are

financial relations and the federal center's policy on the economic development of regions (this policy is called "regional policy" in Russia). So, I show the dynamics of Russian regional policy during the 1990s and 2000s and how the political process and federal relations influence the federal center's regional policy. The third chapter deals with the factors influencing redistribution of intergovernmental financial transfers. To achieve this, the chapter presents a statistical analysis of budgetary, electoral, and economic data. Finally, the fourth chapter contains case studies that concern the so-called "shared spheres of responsibility" of the federal center and subnational authorities. The analysis displays the mechanisms of the federal center's control over regional authorities, and the strategies of regional elites in the context of a changing political regime.

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1 **Tertius gaudens**

What is wrong with Russian federalism?

On September 1, 2004, a group of armed terrorists took hostages in a school in Beslan, a small town in North Ossetia, one of the North Caucasus republics. A total of 1100 people, including 777 children, were captured. Three days later, during the rescue operation at least 314 hostages were killed.

This act of terrorism and the actions surrounding the fearful episode reflected all the particularities and difficulties of intergovernmental and interregional relations in Russia. The hostage-takers were members and supporters of the Chechen separatist and Islamic terrorist movement, which has battled with the federal forces in Chechnya since 1999. The terrorists were known to have declared their demands to the federal government: the federal army was to withdraw from Chechnya, and the federal center was to recognize the independence of Ichkeria, as the separatists named the Chechen Republic.

As well as Chechens, the terrorist group included representatives of the Ingush people. This fact exacerbated a deep conflict between the Ingush and Ossetian peoples, which had broken out due to the controversial status of a part of North Ossetia's territory that had been Ingush land before that people was deported by the Soviet government. Since the time of real war between the two republics in 1992, their relations have remained suspicious and hostile. The fact that the terrorist camp had been located in the territory of Ingushetia before the massacre strengthened such suspicions and could have led to a new phase of conflict between North Ossetia and Ingushetia.

The Beslan tragedy demonstrated the weakness of all levels of government in the North Caucasus in fighting terrorism, including the federal anti-terrorist agencies. Yet Vladimir Putin blamed only the regional governments for this failure. On September 13, 2004 he declared that the power of special agencies had to be increased, and, at the same time, that the institution of popular election of governors had to be replaced with the mechanism of their *de facto* appointment by the Russian President. In this way, Putin used the massacre to dramatically limit the autonomy of the Russian regions.

The governors' reaction to these decisions was unexpected. Where ten years ago they had enjoyed an extremely autonomous, almost independent existence, and five years ago they had loudly protested—unsuccessfully—against the president's idea of replacing them with their representatives in the higher house of

parliament, now they demonstrated complete support for Vladimir Putin's initiatives. The presidents of Tatarstan and Bashkortostan, probably the politically strongest regions in Russia, were the first governors to express their agreement with the president. The head of the Republic of Karelia even said that he considered this option the only possibility for achieving his state's goals.

In that moment, the regional leaders gave up all advantages they had gained in the 1990s, the decade of the great Russian decentralization. Six years later the federal government replaced the presidents of Tatarstan and Bashkortostan without any effort. The powerful leaders of regional autonomy gave place to completely loyal appointees. The year 2016 started with an unprecedented decree by the Russian President concerning the governor of the Republic of Karelia. I will quote it verbatim: "Because A. P. Hudilainen, the head of the Republic of Karelia, failed in his obligations to resettle citizens from emergency housing, I decree to rebuke the head of the government of Karelia A. P. Hudilainen" (*Decree*, 2016). Hudilainen agreed:

It is obvious that the criticism is completely fair, and [I] deserve the reprimand. Karelia has many problems. Vladimir Putin has heard everything and accepted our arguments. That is why only a reprimand was declared. Today I have made a tough decision—the government of the Republic of Karelia is dissolved.

(*Glava*, 2016)

On the same day, Konstantin Ilkovsky, the governor of Zabaykalsky Krai, another regional leader who had been blamed for the failure of housing policy in his region, asked the president to accept his resignation.

Article 1 of the 1993 Constitution of the Russian Federation declares federalism to be a fundamental principle of the public administration in Russia. Subnational governments and parliaments, the distribution of spheres of responsibility between federal and regional authorities, and the upper chamber of the Russian parliament as a channel for representation of regional interests are established by the Russian legislation. At the same time, the practice of intergovernmental relations in Russia in the 2010s is similar to relations between national and regional governments in a unitary state. How has this become possible? Why did the regional governments in Russia reject their political autonomy and integrate themselves into the so-called "power vertical," the united system of government that includes all levels, from the national to the very local? What is wrong with Russian federalism?

How is a federal state built and preserved?

The presidential reprimand to governors, and many other pieces of evidence concerning intergovernmental relations in the 2000s and the 2010s, demonstrates that Russian federalism, if it exists, differs significantly from "classic" cases of federal states. Riker and his followers note that a federation is an extremely

fragile and unstable form of government. Federal and subnational politicians' interests motivate them to struggle for additional spheres of responsibility, financial resources, and political power. That is why such a state is at risk of transformation into either a unitary state or a confederal union.

This fact has led scholars to formulate one of the core research questions in studies of federal states—what institutional safeguards allow for a stable, robust, self-sustainable political system (Riker, 1964; Filippov et al., 2004; Bednar, 2009)? These three authors see a federation as a set of constitutional norms, a specific institutional arrangement that is able to provide the necessary balance in a political system.

Later I will discuss these safeguards in detail, but for now it is important that these findings raise another question: why do some countries create such an institutional context, while others do not and as a result become examples of failed federations? In searching for the factors that contribute to understanding these outcomes, I follow historical institutional reasoning and seek them in the particularities of the origin and the process of federalization in such countries. My argument here is that a specific context of federalization (Faletti, 2005) generates certain mechanisms that allow or force regional elites to struggle for their autonomy in federal states. I theorize that all institutional safeguards are results of such mechanisms' activity.

One of the most comprehensive reviews of ideas concerning causes and factors involved in federal states' origins is contained in the concluding chapter of Ramesh D. Dikshit's book *The Political Geography of Federalism* (1975). The central place in his analysis is given to Riker's concept of two conditions of federal bargaining. Riker insists that each of two conditions is a "necessary condition for the creation of a federalism" (Riker, 1964: 13). The first is the "expansion condition," which indicates the will of a state's rulers to expand their territory peacefully. The second one is the "military condition," which is engaged when politicians participate in federal bargaining to become stronger in the face of a dangerous enemy. Riker's point is very radical: he is confident that the absence of at least one of these two conditions leads to the failure of a federal state. Dikshit does not agree with this assertion. His analysis demonstrates at least two cases (West Germany and Austria) that did not meet these assumptions. At the same time Dikshit supports Riker's and many other authors' focus on the military condition. He agrees that a foreign threat promotes the reinforcement of the central government and support for a federal state as a whole.

Dikshit himself proposes a model that explains why some cases of federalization result in centralized federations or even unitary states while other cases end in decentralized federal models or confederal unions. Dikshit's model pays attention to the entities that will ultimately become the subnational units of a future federal state. He writes that the six factors contributing to the creation of a more centralized system are the subnational units' sense of common military insecurity, their similarity of race, language, and culture, the interdependence of their economies, the prior existence of these communities as parts of the same political system (for example, as colonies of an empire), the existence of easy interregional communication, and their

compatibility in terms of social and political institutions. On the other hand, there are six factors that can prevent any integration processes. They are the existence of regionally grouped diversities, the existence of communities with independent or competitive economies, the communities' prior independent existence as political units, the absence of a common external threat, the presence of conflicting threats to the different units involved, and the existence of groups of units following contrasting and mutually incompatible "philosophies" (today we would say "ideologies").

Dikshit believes that different combinations of factors from both groups lead to specific types of federalism (he uses Riker's distinction between centralized and peripheralized federations) or even transformations of federal states into unitary ones or complete disintegration. For example, Dikshit insists that "if the first factor of the first set is found in combination with the first three factors of the second set, the situation is confederal" (Dikshit, 1975: 229). Additionally, there is a combination of factors that, according to Dikshit, contributes to the formation of a centralized federal state and its subsequent transformation to a unitary state. To reach such an outcome, all the factors of integration must be combined with one factor of disintegration—the units' experience of being independent states or regionally autonomous provinces in an empire (Dikshit, 1975: 232).

The main advantage of this model is that it is based on empirical analysis of at least 17 federations across the world. The thorough description of these countries allows Dikshit to make a comprehensive list of factors. At the same time, this can be seen as a disadvantage. With six factors involved in protection of autonomy in a model, it is very difficult to understand which one of them is the most important and which others perform technical and supporting roles.

However, the most significant limitation of both Riker's and Dikshit's ideas lies in Albert Venn Dicey's statement that a federation is born when "political communities in an area desire union without desiring complete unity" (Dikshit, 1971: 101). During almost the whole of the twentieth century, the biggest theorists of federalism reproduced the idea that federations are products of the integration of independent states or autonomous parts of empires. That is exactly why the United States of America became a prototype and ideal type of federalism for many scholars.

Alfred Stepan (2005) was probably one of the first authors who insisted that we should distinguish between two types of modern federal states. He called them "coming-together" and "holding-together" federalisms. The USA, the exemplar of coming-together federalism, can be useful for understanding only those federations that were formed as a result of the integration of several sovereign or partially independent states. They must bargain with each other to create a supranational government and design an institutional environment that protects them from transformation of the federation into a unitary state. Hereafter I name this process of federalization the "scenario of centralization."

Apart from the USA, other examples of this type of federalization are Argentina, Australia, Canada, Germany, Malaysia, Mexico, South Africa, and Switzerland. Of course, they all are very different cases, but the particularities of their

federalization, I would argue, lead to the development of a specific context of intergovernmental relations, which I will describe later.

Most of the newer federations have formed in a different way. They are the result of decentralization, when the central government of a unitary state delegates a share of its responsibilities to subnational governments. This scenario of decentralization develops into holding-together federalism. Austria, Belgium, Brazil, Ethiopia, India, Nepal, and Nigeria were formed in accordance with this pattern.

Later I will discuss basic differences in the content of coming-together and holding-together federalisms. Now I will examine the preconditions, causes, and particularities of federalization in both scenarios.

Due to the American case, the scenario of centralization has been extensively scrutinized. There are detailed descriptions of every stage of federalization as well as theoretical interpretations of every moment of this process.

The key moment in the scenario of centralization is the signing of the constitutional contract between the states that will become subnational units in a future federal state. This contract transfers part of their responsibilities to the federal government that is formed as a result of this bargaining. This process must provide obvious advantages for the elites of the future subnational units, otherwise they would not agree to the loss of their independence. What are their incentives in this process?

The scenario of federalization follows the model of the social contract described in the works of Thomas Hobbes (Hobbes, 1998) and John Locke (Locke, 1999), which explain the origin of the state through the great disadvantage of the “the state of nature,” where people feel a lack of safety. They make a contract to overcome this problem: safety and law replace their natural freedom.

The same incentives push independent states to give up their independence. The *Federalist Papers*, the best source where the Founding Fathers of the USA thoroughly explain why they propose to establish a centralized state instead of the extremely weak confederal union, indicates two main reasons to centralize. Both concern issues of states’ safety, because “among the many objects to which a wise and free people find it necessary to direct their attention, that of providing for their safety seems to be the first” (Hamilton et al., 2008: 79). On the one hand, a federation allows its formerly independent units to avoid wars with each other. On the other, a united state is a more powerful player in the international arena, as it can protect itself and its interests in relations with other states better than a set of small countries.

Of course, this finding is not novel for federal studies. Riker’s *Federalism* states the same when the author describes the military condition of federalization (Riker, 1964: 12–13). This rationale remains effective even two centuries later. However, it now concerns predominantly economic rather than military safety. For example, the successful development of the European Union’s integration can be explained by the same reasons.

The numerous examples of federations that were created in accordance with this scenario allow one to formulate a model of the formation of such federal

states. In the first stage, several independent states with relatively small territories and limited influence on international affairs make an agreement of collaboration and coordination in certain spheres. In the USA, that agreement was formalized in the *Articles of Confederation*, which was aimed at strengthening 13 states in the face of foreign enemies. But five centuries before the American experiment, in Europe the three rural communities of Uri, Schwyz, and Unterwald, which had gained independence from the Holy Roman Empire, arranged the “Everlasting Alliance” to provide for defense against the big players in the European arena. Over the next half-century five more communities joined the confederation.

Initially, a confederation can be managed by an assembly or other coordination organization, which represents all members of a confederation and does not make any decision without the consent of each member. However, quite soon the absence of a powerful center of decision-making, and numerous disagreements between the members of a confederation, lead to discussions about the need to strengthen the union. As a result, the members of a confederation make a new bargain and create an authoritative federal government along with an assembly, courts, and other components of a real centralized state. This process can take many years, but one day a federal state is declared by a new constitution, which includes all the requirements I discussed in the Introduction.

Of course, not all states follow this path of federalization in every detail. For example, the British colonies in Australia and Canada bypassed the stage of confederation and went straight to the stage of centralized federations (although in the Canadian case this new state was called the Canadian Confederation, *de facto* it was a federal state). The federation formed in Germany in 1949 was designed not by independent states, but by the 11 regions of Germany, which had been deprived of their national center as a result of the Second World War. Thus, the scenario of centralization is confirmed not by observing a process of step-by-step centralization, but rather by the absence of any central government in the process of constitutional bargaining. The leading role is performed by the future subnational units: they agree to the establishment of a federation, designate the spheres of responsibility that will be transferred to the federal government, and provide institutions to protect the union from disintegration or complete centralization.

As a result of the realization of this scenario, coming-together federalism emerges. Such a federation is symmetrical. During constitutional bargaining, its participants are able to demand that equal rights and responsibilities be provided for each of them. Otherwise, deprived units can reject integration. A consequence of this equality is, using Stepan’s terms, the “demos-constraining” model of government, where the interests of subnational units dominate those of the people of the federation as a whole. Again, not all federations created in accordance with the scenario of centralization are controlled by these institutions, but compared with holding-together federations they fit this description.

Initially in such federations, subnational units have a fairly wide range of spheres of responsibility, but later they are forced to transfer more functions to the higher level of government. There is a wealth of literature that demonstrates

how the American federal politicians withdraw regional responsibilities step by step, using the decisions of the Supreme Court as the politically strongest federal actor. At the same time, the states' elites fervently protect their rights and responsibilities; they appeal to the US Constitution as the contract they made as independent states.

Another model of federalization, which results from decentralization in a former unitary state, is explained by different reasons. Under normal circumstances, the central government of a unitary state would hardly agree to limit its competences and political resources voluntarily. The only incentive that can encourage the central elites to share their power with regional ones is the threat of losing power completely. To clarify the nature of this threat, we can examine a couple of enlightening cases. The first is Belgium, a classic example of the scenario of decentralization. I understand that the Belgian case is well known to scholars of federalism, but I would like to remind the reader of a few key points in its history.

The Kingdom of Belgium, as we know it now, emerged on the political map of Europe in 1830 as a unitary state that was mainly inhabited by two linguistic communities—the Flemish, who spoke a dialect of the Dutch language, and the Francophone Walloons. The first community comprised the majority of the population (nearly 51 percent), while Walloons were in the minority (33 percent) (Loh, 1975: 218). In spite of this ratio, the political, economic, and cultural elites in Belgium stemmed from the Francophones. The Flemish population mainly included peasants, workers, and merchants. All Flemish people who could find a place among the elites necessarily spoke French. This language became an important condition for moving up the social class ladder.

The 1831 Constitution of Belgium declared the country to be a constitutional monarchy led by a parliament. But participation in elections was limited by the demand that voters should pay a specific tax. As a result, the electorate consisted of members of the higher economic class, and the Flemish population was virtually deprived of political rights and could not participate in national policy-making. The constitution did not even mention that the Belgian population spoke two languages. Only French was used in public affairs.

In essence, the national government launched a policy of civic nation-building based on the Walloon community and the French language. The Flemish people felt a sense of alienation from Belgian statehood. They were dissatisfied with the resulting governmental system and societal arrangement.

As a result, by the middle of the nineteenth century, intellectuals and professionals from the Flemish middle class demanded that the French and the Flemish languages should be made equal in the public sphere. It was the beginning of the Flemish national movement (Dunn, 1974: 144). Eric Hobsbawm characterized such groups in the following way: "The battle-lines of linguistic nationalism were manned by provincial journalists, schoolteachers and aspiring subaltern officials" (Hobsbawm, 1992: 117). Representatives of these groups began to standardize the Flemish dialects and teach other Flemish people the unified Flemish language. Gradually, the idea of the revival of Flanders spilled over into

the political sphere. Hobsbawm described this transition with the help of Miroslav Hroch's model (Hroch, 1996). The cultural and linguistic renaissance, which became a foundation for nationalistic movements in Belgium, is evidence of Hroch's phase A. Phase B refers to the emergence of activists who provide "political agitation in favor of the 'national idea.'" Finally, phase C occurs when "mass support for 'the national idea' can be counted on" (Hobsbawm, 1992: 104). This model does indeed describe the development of the conflict in Belgium. Eventually, the national government bowed to the pressure of the Flemish movement and steadily increased the official status of the Flemish language up to the beginning of the twentieth century.

The small numbers of the Walloons, the increasing economic development of Flemish industrial companies, and the history of long-term opposition between the two communities led the Walloons to fear being politically deprived in the new societal conditions. Thus, as a consequence of the sharp increase in the influence of the Flemish community, the Walloon citizens reacted by giving birth to their own nationalistic movement. Ultimately, Belgium experienced many incidents of ethnic conflict, including actual riots, which were initiated by both sides. Considering these facts, it is no wonder that both Walloon and Flemish radical politicians have suggested separating Belgium into two independent states.

The problem was exacerbated by the fact that the groups in conflict had dispersed across Belgium when settling, although two regions—Wallonia and the Flemish region—had historically existed. The most obvious problem lay in Brussels, which was inhabited by representatives of both groups. Additionally, there was a German-speaking population in part of Wallonia.

Since the issues of culture and language were at the center of public debates, it is not surprising that the first wave of decentralization in 1970 included forming three extraterritorial cultural communities, Flemish-, French-, and German-speaking, which were given opportunities to make decisions in the fields of culture and education. In 1980, the second wave of reforms recognized the communities' rights to govern not only culture but also human rights, healthcare, and social provision. Additionally, two territorially based regions were formed—the Flemish and Walloon regions. All five subnational units had a legal opportunity to form assemblies and cabinets, but the Flemish community and region decided to combine their governmental structures. The third wave of decentralization (1988–1999) formalized Brussels as a distinct bilingual region. At the same time, the communities' responsibilities were extended to educational policy, while the development of transportation infrastructure was delegated to the regions.

As a result, Belgium became one of the most famous cases of an ethnic federation in the contemporary world. Its constitutional arrangement, which combines extraterritorial and territorial subnational units, is an example of complex institutional design, one formed by the central authorities in order to avoid the collapse of the state. Sometimes, quite often, the future of Belgium is impugned, but the fact is that Belgium overcomes new political crises time after time and continues to demonstrate the robustness of its governmental system.

It is worth noting that states that have proceeded far along the path of decentralization often refuse to recognize themselves as federal states even when they satisfy all the requirements for this type of government. In spite of the fact that Belgium has enjoyed the basic features of federalism since 1970, those features were only established constitutionally in 1993. We can observe the same situation in Spain, where the 1978 Constitution includes all the features of a federal system, but has no mention of federalism (Agranoff, 2006).

In general, the Spanish case repeats the main features of the Belgian history of federalization. Francisco Franco, having just won the Spanish Civil War, abolished the territorial autonomy of the Basque Country and Catalonia, two regions with their own languages and cultures, which were significantly different from the Spanish ones. Franco not only forbade the use of these languages in public affairs, but also banned the practice of regional traditions (Shabad and Gunther, 1982). These measures provoked real opposition from the Basque and Catalan communities, and several nationalistic armed groups appeared and made very radical demands, including for these regions to secede from Spain. After Franco's death, the new democratic government provided broad autonomy to the two regions. It was a *de facto* federal system: the regions received their own competences, political autonomy, and financial resources for development. That the central government's policy measure was compelled by pressure from the nationalistic movements is proved by the fact that, initially, only the two problematic regions received a given level of autonomy. Additionally, there is a univocal statement in the constitution by the national government that clearly demonstrates its careful attitude to the process of decentralization: "Under no circumstances shall a federation of Self-governing Communities be allowed" (*Constitution of Spain*, 1978).

So how can we describe the process of federalization in accordance with a scenario of decentralization? Initially, there is a heterogeneous society that consists of several ethnic, linguistic, or religious groups. Later, one of the groups comes to occupy dominant positions in public sphere. This is usually accompanied by the policy of forming a nation-state based on the linguistic and cultural characteristics of the dominant group. As a result, a transition from a heterogeneous society to a so-called "plural society" takes place.

The analysis of the Belgian and Spanish cases demonstrates that the plural society is the context that launches federalization. To define the term "plural society," I follow Harry Eckstein and Arend Lijphart, who define it as a society "where political divisions follow very closely, and especially concern lines of objective social differentiation, especially those particularly salient in a society" (Eckstein, 1966; Lijphart, 1977). These lines divide the segments of a plural society, which can be religious, cultural, racial, or ethnic. This definition demonstrates that a plural society suffers from deep-rooted conflicts.

If the segmented communities are concentrated in location, struggles between them can lead to territorial disintegration and even the collapse of the state. But if they are settled in a dispersed way, civil war can break out. Under the circumstances of a plural society, the central government has to take measures to avoid

the state's rapid disintegration. These often include forceful action against nationalistic movements. Such actions can prove efficient in a short-term perspective, when the government does not shy from applying the repressive apparatus, and is less concerned with appeasing its citizens' dissatisfaction with the violation of their rights. But in the long term, a government's tough actions deepen conflict between the segments of a plural society. Soon, especially in democracies, the government has to succumb to moderate demands by the leaders of the minorities, and launch the process of decentralization.

Decentralization can be implemented in one of two ways. The first involves the delegation of authority and resources to governmental structures that represent the segments of plural society. Theoretical support for this strategy is provided by Arend Lijphart's concept of consociational democracy (Lijphart, 1977). It proposes that all segments of a plural society should be included in the national decision-making process and possess a high level of autonomy. Consequently, the central government should create a federation where each segment becomes a subnational unit. Depending on the manner in which the segments are settled, the subnational units can be territorially or extraterritorially based.

An alternative to Lijphart's model was developed by Donald Horowitz (1985), one of the most famous opponents of the consociational model. It is noteworthy that his solution is federal as well. The main difference between the two models is that Horowitz proposes forming subnational units without considering segmental differences, because if a segment is delegated competences and political autonomy, separatist movements will gain additional resources to continue disintegrating the state. That is why following Horowitz's idea protects a federation that would consist of administratively defined subnational units coupled with the presidential model of separation of power.

The weakness of Horowitz's argument is that he bases it on Nigeria, a case of a federation being created by an authoritarian government. The first constitution of a Nigeria independent from the British Empire's control declared a federal territorial arrangement with three subnational units, which institutionally framed the three main segments of its plural society—Hausa-Fulani, Yoruba, and Ibo. This constitution was consociational from the perspective of federal arrangement. The three groups controlled the federal government and assembly without considering the consociational rule of veto. That is why the Ibo, the smallest group, demanded that the competences of the federal center should be re-examined: the central government should possess only such authority as was agreed by all segments of Nigerian society. The dominant groups did not agree with this proposal. In 1966 the situation gave rise to a demand to allow Ibo and its allies (the Biafra coalition) to form an independent state, and resulted in a full-scale civil war in Nigeria. The military government divided the three subnational units into 13. In 1979 their number was increased to 19 (Horowitz, 1985: 612–613), and in 1993 to 36 states and one territory.

Thus, the main reason to form a federal state within a scenario of decentralization is to find an institutional solution that defuses the conflict between the segments of a plural society where some wish to secede and found an independent

state. Lijphart persuasively demonstrates that under democratic conditions central governments have a limited number of strategies to influence the situation. The segments of a plural society are so politically strong that they rarely allow the central authorities to weaken them using the tools of institution-building. At the same time, Horowitz draws our attention to the use of federal approaches by authoritarian governments to solve the same problem—that is, the existence of the centrifugal intentions of distinct communities, which are dangerous for the whole state.

Federalization here represents the national government's acquiescence to bottom-up demands, and something it would not have otherwise pursued. The intensity of such demands correlates with the degree of the communities' autonomy and their willingness to gain new powers and resources even at the cost of lives.

This pattern explains why such federations are typically asymmetrical. The central government agrees to delegate competences and resources only to those communities that demand them. Based on the results of bargaining with each community, the center creates a special model of intergovernmental relations, which can be changed again if one of the actors—either the center or a subnational unit—acquires new arguments for a new wave of bargaining.

According to Stepan's logic (2005), such a federation is "demos-enabling" as well, since proportionality and consensus are the key elements of such a political system, and allow for the representation of all segments in every influential governmental structure, as well as effective participation of minority groups in the decision-making process.

As far as observed cases demonstrate, in both models of federalization future subnational units perform a crucially important role: they initiate the process of forming a federal state. In the scenario of decentralization, subnational units force the central government to share its power, while in the scenario of centralization, there is no center until units agree to create it. Their active role includes the opportunity to establish an institutional system that protects their autonomy in a long-term perspective. It is obvious—and this is an important note for my further argumentation—that if a subnational unit does not participate in bargaining over a new constitutional arrangement, nobody will provide safeguards to preserve its federal relations in the future.

Federalization following the pattern of one of the two scenarios gives rise to a surprising consequence. Those federations that were formed due to centralization keep centralizing further. The United States Supreme Court has recently compelled the states' governments to legalize same-sex marriage. President Obama's administration was able to impose a radically new health care system on the whole country. The possible introduction of general standards of education in the United States is also a popular subject for policy debates in contemporary America.

Switzerland is another federation that sees frequent strengthening of the federal government (Braun, 2009). This tendency forced the cantons' governments to initiate a re-examination of intergovernmental relations in the country

at the turn of the century. Such centralization does not turn a federation into a unitary state. The safeguards reliably protect subnational units against a one-way revision of federal bargains. But subnational elites are wary of this tendency toward centralization, which is fiercely debated at all levels in the aforementioned countries.

A contrast to this can be found in those federations that were formed as a result of decentralization experience strengthening subnational units, which go on to demand greater levels of power and independence. The movement toward a referendum on Catalonia's independence in Spain and the ongoing discussions on the future of Belgium demonstrate the main danger of this scenario of federalization, namely the significant possibility of such a state's disintegration.

A scenario of federalization in a country is not something determined once and for all. Canada, which is traditionally described as an example of a holding-together federation, was created according to the scenario of centralization. Initially, the Canadian Confederation was established as a union of four equal provinces. In spite of the active influence of Great Britain on this process, representatives of United Canada, New Brunswick, Nova Scotia, and Prince Edward Island bargained between 1864 and 1866 to decide on the institutional design of the future state. However, since the very beginning of the history of relations between the provinces and the Crown, one province has demanded special privileges in relations with any central government. This has always been Quebec. Two conscription crises, in 1917 and 1944, the Quiet Revolution of 1976, and two referenda on independence in 1980 and 1995—all demonstrated a need to make a new bargain between the federal government and Quebec. As a result, at present Canada is an asymmetrical federal state with a politically and economically strong minority.

This active role of the subnational units in federalization and the subsequent protection of their autonomy can be explained by the strategic actions of two groups of political actors. One group is the elites of subnational units, which act as strategically oriented players. They wish to have a federal state since this helps them to achieve the benefits I demonstrated above. The institutional design of every federation is bargained over during long negotiations where subnational leaders and other representatives of elites are important participants. This agreement includes a system of checks and balances, those safeguards that guarantee the preservation of the federation in the long term. Later, if the center violates the agreement without a new phase of bargaining, the subnational units are ready to fight for their autonomy and the central government's respect.

At the same time, subnational units are not limited by the institutional arrangement set by political elites. Rulers are largely powerless if they do not have the support of a population ready to protect the unit's autonomy by force. That is why Maria Nozhenko and I (Nozhenko and Starodubtsev, 2006) define a subnational unit in a federal state as a political community that possesses autonomy in its relations with the federal center and other subnational units, as well as its own governmental structures and often its own territory.

Publius addressed each of his papers to such a political community when he wrote "An Address to the People of the State of New-York." By the time of the

Constitutional Convention in Philadelphia, political communities existed in each state. Residents of former British colonies had been enjoying a completely or relatively independent existence. They had fought for their independence from Great Britain, maintained established borders, and participated in establishing legitimate authorities. At the convention, the Founding Fathers represented not only their own political interests, but the people's interests in their home states. This illustrates how, in the scenario of centralization, by the point of the constitutional bargain, political communities exist in every unit that is going to integrate into the federal state.

In the scenario of decentralization, political communities stem from the segments of a plural society. During the transformation of segments to nations their political demands change as well. Along with overcoming cultural discrimination, they claim the right to live independently or at least autonomously within their own territory. This is the moment when a segment becomes a political community. Federalization, in its turn, provides this community with a governmental structure with competences of its own and, as a result, strengthens the community's cohesion.

The core element of such a community is a political identity that unites all members of the community. During the emergence of the federation, this identity does not disappear but transforms into a regional one and adjoins with a national identity.

At the same time, the [former] [...] can dominate in the thoughts of many citizens of a federal state. "It is a known fact in human nature, that its affections are commonly weak in proportion to the distance or diffusiveness of the object" (Hamilton et al., 2008: 165). That is why in any possible conflict between the federal center and subnational units "the prepossessions of the people [...] will be more on the side of the State governments, than of the federal government" (Hamilton et al., 2008: 357). Keeping strong regional identity undoubtedly should be seen as a factor that prevents forming a single nation in the boundaries of a federation. However, the existence of own political communities in the subnational units is an element of the checks and balances: the federal center is not able to usurp power in the country.

(Nozhenko and Starodubtsev, 2006: 62)

Thus, only politically strong subnational units are able to save a federation from transformation into a unitary state. My argument is that such strength is not formed by means of institutional engineering at the behest of the national government, which is hardly interested in providing the subnational communities with additional resources and rights. Federalism is supported by the opportunity of subnational units to achieve the most favorable institutional environment during the constitutional bargaining for a new country (the scenario of centralization), or compel the national center to give them both autonomy and safeguards under the threat of disintegration of a country with a plural society (the scenario of decentralization).

How was the Russian Federation built and not preserved?

In 2004, when Vladimir Putin abolished the direct popular election of Russian governors, the most famous news show on Russian television gave this explanation: the new federal system was closer to the German system, where the subnational units' populations do not elect their own top officials; instead, the officials are appointed by majorities in the Länder's parliaments. The new Russian system, journalists insisted, transferred the right to elect a governor from the electorate to the level of responsible politicians who had already been elected by the population. At that moment, nobody had told the Russian population about one significant difference between the German and Russian models: in Germany, the federal center could not propose a candidate for the position of governor to a Land's assembly, whereas President Putin's idea empowered only the President of the Russian Federation to do so. This difference is crucial. It turns a federal state into a unitary one, because it violates one of three characteristics of federal relations—the political autonomy of the subnational communities.

Russian journalists, following the lead of the Russian government, used the German case to demonstrate the conventionality of Vladimir Putin's federal reform and confirm that the new model satisfied the constitutional declaration that Russia is a federal state. They likely selected Germany as a respected Western partner with a similar system of elections of regional heads, although there are several similar features between the federal systems in these two countries.

At the same time, I am confident that examining the Russian case in a comparative perspective could potentially be a very useful task. In the previous section I discussed the conditions that are able to protect or, conversely, destroy subnational autonomy in a federal state. Now, I would like to examine whether that model works in the case of the Russian Federation and how it helps to reveal any new factors and mechanisms of Russian intergovernmental relations.

This section is devoted to the history of the development of federal relations in Russia. I will construct it according to the same analytical approach as the description of the scenarios earlier. I will study the conditions that encouraged decision-makers to develop federalism at the beginning of the 1990s. I will look for actors of federalization in Russia and make an attempt to understand what incentives and interests forced them to choose between different models of intergovernmental relations. Finally, I will describe the basic results of the Russian path to federalism and explain why the biggest country in the world became so close to the unitary model. The starting point of my chain of argumentation is that a stable model of intergovernmental relations and territorial governance has not been established in Russia over more than 25 years: short-term equilibriums have replaced long periods of transformation. These changes and their predictors are at the core of my analysis in this section.

When did the history of Russian federalism begin? The contemporary territorial arrangement was put into law by the 1993 Constitution of the Russian Federation. Political plurality, a market economy, territorial disintegration—all these

characteristics of the “new Russia” were very different compared with the Soviet system. As a result, one might suggest beginning this analysis from the moment of the Soviet Union’s collapse, when a new system was established. I cannot agree with this approach. I will demonstrate that the Soviet practices of territorial governance influence current patterns of intergovernmental relations significantly. Moreover, the first steps on the path of decentralization were taken when Russia was a part of the Soviet Union. Thus, I can say that federalization had begun prior to the emergence of an independent Russia.

The last constitution of the USSR was adopted in 1977. The Soviet Union was declared a federal state that consisted of 15 Soviet republics including the Russian Soviet Federal Socialist Republic (RSFSR). Various documents and academic articles asserted that the Soviet Union had realized a model of “socialist federation,” while the Western countries had developed a so-called “bourgeois federation.” *The Great Soviet Encyclopedia* (n.d.) notes:

Socialist federations, which differ radically from bourgeois federations, are based on another principle entirely. In the USSR and in socialist countries, for the first time in history the state system of federation has become the basis for resolving the national question. The socialist federations are based on the principle of national territoriality (*natsional'no-territorial'nyi printsip*) and the voluntary union of sovereign and equal members of the federation, each member having the right to secede from the federation.

(*The Great Soviet Encyclopedia*)

Every Soviet republic had its own constitution. The 1978 RSFSR Constitution declared Russia a federation as well. The RSFSR comprised different types of units—autonomous republics, krais, oblasts, cities of republican subordination, autonomous oblasts, and districts. The constitution highlighted the special status of autonomous republics: the RSFSR “consisted of” them and “had” all other types of subnational units.

Can we define the RSFSR as a *de facto* federal state? I insist that in the case of the RSFSR at least two criteria did not apply. The first of them is Riker’s criterion—the existence of at least two levels of government that possesses individual responsibilities. On the one hand, autonomous republics satisfied this condition. But some evidence has led me to doubt that they really were subnational units of Russia. First, although only the RSFSR was declared to be a federal soviet republic of the USSR, another Soviet republic—Georgia—had two autonomous republics (Abkhazia and Adzharia) and the same constitutional norms that regulated their relations with the Soviet republic. Second, Soviet republics and autonomous republics had the same constitutionally based responsibilities. This evidence shows that autonomous republics had the same administrative status as Soviet republics. Hence, politically and even legally we can consider them subnational units not of Soviet republics but of the USSR.

The second criterion—the election of chief policy-makers by the communities of subnational units—did not apply to the RSFSR (just as with the USSR).

Elections in the USSR were neither free nor competitive. From the perspective of federalism, subnational elections are not only a means to select rulers but also a space to discuss agendas and programs for the better development of a region and regional community. It is obvious that such a space cannot exist under the conditions of an authoritarian political regime. Thus, there is no opportunity to legally and openly discuss the most pressing issues (which are often ones unpleasant for the federal center).

The Soviet Union's government was characterized by "the co-existence (or the conflict) of a dual authority, the party and the state" (Arendt, 1966: 395), a model that doubles the number of governmental mechanisms. Hannah Arendt brilliantly describes how in the USSR official governmental agencies performed the role of a façade (just as they did in Nazi Germany), while real power was concentrated in the colossal system of the Communist Party of the Soviet Union (CPSU)'s organizations (Arendt, 1966: 392–419). The head of the party organization in an autonomous republic was usually appointed by the central government. The appointee could be a representative of the republican elite, but the fact of the appointment shifted his or her loyalty from the regional level to the national one. That is why popular elections remain a key feature that supports federal relations in a country (i.e., ones that are decentralized, with the genuine autonomy of the regional governments).

Thus, neither the USSR nor the RSFSR was a federal country during almost the entire period of its existence. I will demonstrate that the process of federalization in the USSR and in some of its Soviet republics began only in the 1980s. To show how this happened and explain what circumstances pushed politicians to federalize the Soviet Union, I have to explain the main features of the political and economic situation in the country during that period.

Mikhail Gorbachev, who had just been appointed as the new General Secretary of the CPSU, faced tremendous and deep-seated problems of public administration and economic development. The second half of the 1970s and the first half of the 1980s was a period of gradual and steady decrease in the Soviet Union's economic power. The Soviet economy's systemic problems (inefficient economic production, a deficit of labor force and food, dependence on trading oil), exacerbated by a sharp drop in the international markets' oil prices, demanded that the Soviet government offer measures to overcome the crisis (Gaidar, 2007). Gorbachev was forced to, and ready to, launch a set of economic reforms, but their effectiveness would be restricted by the extremely ineffective and clumsy management system of the framework of the command economy.

To overcome these problems the Soviet government decided to partially liberalize the economic system. One of its measures was the so-called *hozraschetnyi sotsializm*, a system where all enterprises (which were public, because there were no business enterprises under other forms of ownership in the Soviet Union) had to be managed in a new way. Instead of implementing annual plans formulated by the government, their managers were now responsible for finding the partners—customers and suppliers—who would provide the most profitable contracts for the company (Sogrin, 2001).

This reform launched a discussion on the responsibilities of all levels of government in the economic sphere. In June 1987, Gorbachev said that regional governments “should be responsible for overall economic and social development in a region” (Gorbachev, 1987). I believe this was the first time a Soviet leader declared a need for real decentralization in the Soviet Union.

Estonia was the first of all republics, both Soviet and autonomous, to initiate a broad discussion of this slogan. Soon, the project of *respublikanskii hozraschet* was publicized. Its key element was a shift of public management in the Soviet Union from the departmental model (when a whole country is governed as a set of policy fields through ministerial mechanisms) to a territorial one.

A year later, the Soviet government accepted this idea and began to discuss “the Estonian project” (Raig, 1988: 3). Soon, the Soviet central government agreed to delegate responsibilities for earning, distributing, and spending financial resources to the regional governments. In this way, it forced the Soviet republics to solve the increasing economic problems on their own, as it previously had with the industrial companies. Thus, the economic crisis in the union was the first part of the context that pushed the administrative and financial decentralization forward.

The decentralization was also encouraged by another type of liberalization in the Soviet Union. In addition to the slow and very careful introduction of market mechanisms, Gorbachev declared *glasnost*, a policy of supporting freedom of speech and expression. In the republics the resulting discussions led to demands to change the established model of relations between subnational units at different levels.

The first example of such a political conflict was Nagorny Karabakh, a small part of the Azerbaijani SSR populated mainly by Armenians (75.9 percent of the population (Starovoitova, 1999)). The conflict between the two ethnic groups was deeply rooted. In spite of an Armenian majority, the Azerbaijanis had controlled Nagorny Karabakh for a long time. The situation could have been resolved in 1920–1921, when both Azerbaijan and Armenia were integrated into the Soviet state. The Soviet government decided to include the territory in the Azerbaijani SSR as an autonomous unit. But this status did not provide the Armenians with any protection of their cultural and other rights. The status of “autonomous oblast” was lower than that of “autonomous republic” and equalled that of all other types of subnational units. In early 1988, Nagorny Karabakh’s authorities declared that the oblast was going to be integrated with Armenia. This act led to a war between the Azerbaijanis and the Armenians within the territory of the autonomous oblast.

A similar situation arose in Georgia, where the Abkhazian Autonomous Soviet Socialist Republic declared itself part of the RSFSR. The Georgian population protested against this decision. The situation was exacerbated when, in 1989, the Soviet Army suppressed a protest meeting in Tbilisi, the capital of Georgia. Twenty Georgians were killed. As a result, the loyalty of the Georgian population to the Soviet system was undermined (Sogrin, 2001).

The Soviet government had to react in some way to the process of degradation of the well-established model of Soviet federalism. In the summer of 1988,

Gorbachev held the 19th Conference of the Communist Party. Its resolution, titled "On relations between ethnic groups" (*O mezhnatsional'nykh otnosheniakh*), was to strengthen the socialist federation:

We are speaking of broadening the rights of the Soviet republics and autonomous republics, decentralization, delegating (*peredacha na mesta*) a set of governing functions, and strengthening self-governance and responsibility in the spheres of economy, social and cultural development and environmental protection.

(Rezolyutsiya, 1988)

It was the first step toward providing administrative autonomy to autonomous republics along with the Soviet republics. This decision concerned all autonomous republics, wherever they were located. Let us keep this fact in mind in order to understand the particularities of Russian federalization later.

In September 1989, the Communist Party adopted "The National Policy of the Party in the Current Circumstances"¹ (*Natsional'naya*, 1989: 1–2). In its ideological part, the document justified the process of decentralization in the Soviet Union. In accordance with the pattern of the scenario of centralization, the federal center admitted that the Soviet Constitution was a contract that stipulated the union's and the Soviet republics' lists of responsibilities. The USSR, the documents said, was created by the will of future Soviet republics that had agreed to delegate some responsibilities to the union's level, but reserved a right to govern absolutely independently when it came to the rest. Ideologically, this meant that Gorbachev's reforms were a way to bring to life the original model of the Soviet Union.

At the same time, the document included several measures aimed at strengthening autonomous republics. First, the Soviet government agreed that the sphere of the autonomous republics' responsibility should be expanded. Second, the center guaranteed the transfer of control over companies and organizations located in autonomous republics to their level. Third, the autonomous republics received the right to propose legislative initiatives to the parliaments of the Soviet Union and Soviet republics and the right to legally protest against legislation by the higher level's governments and parliaments.

Another consequence of glasnost was discussion on the annexation of the Baltic States by the Soviet Union in 1939. Glasnost revealed the states' will to change their relations with the Soviet Union. As a result, in 1988 the Supreme Council of the Estonian Soviet Socialist Republic changed Article 74 of the republican constitution. Before this change, the constitution had included the following principle: "The laws of the USSR are obligatory within the territory of the Estonian SSR." Afterwards, it was replaced by a different phrase: "The Supreme Council of the Estonian SSR is able to prevent or limit the implementation of a legislative or other act of the USSR."

The Soviet government's reaction was ambiguous. On the one hand, Gorbachev criticized Estonia's decision. On the other hand, for the first time he formulated the possible limitations of potential decentralization in the country:

Can we even think of breaking up railroads, aviation, the energy industry, the system of oil and gas production and the big metallurgical and engineering industries? On the one hand, it is economically useless. On the other hand, it is politically unfeasible. But the light, food and some other industries of the agricultural sphere, local transportation, trade, health care organizations and schools, public catering—all of these should be the republics' and even the oblasts', cities' and municipal districts' spheres of responsibility.

(Vystuplenie, 1988)

In May 1989 Gorbachev proposed a full-scale reform of federal relations within the USSR:

In the political sphere, this is a significant broadening of the rights of the Soviet and autonomous republics and other ethnic units, delegating a greater number of governing functions and strengthening the republican and local governments' self-government and responsibilities. In a federal state we should strictly understand which competences belong to the Union, and which are sovereign rights of a republic or an autonomous unit. We should design legal mechanisms for resolving potential collisions in the relations between them.

In the economic sphere, we should harmonize relations between the Union and the republics on the basis of an appropriate combination of economic self-government and active participation in the division of labor within the Union as a whole. [...] In the spiritual sphere (*v dukhovnoi oblasti*) we proceed with the diversity of ethnic cultures as a great social and historical value, a unique asset of the whole of our Union. We do not have the right to lose any one of them.

(Ob Osnovnykh, 1989)

This quote demonstrates the Soviet government's elite's understanding of the danger of such avalanche-like decentralization: the possibility of fragmenting the Soviet Union and losing internal cohesion within the state. In response to these challenges, Gorbachev declared the need to form mechanisms that would fruitfully resolve the increasing number of conflicts at different levels of the Soviet system of government.

In spite of the fact that the union's center presented a policy of intergovernmental relations as a return to the principles of coming-together federalism (i.e., the USSR was seen as a union of Soviet republics that agreed to form a central government and delegated a set of responsibilities to the upper level), these reforms are correctly described by the scenario of decentralization. Hence, the center's policy contributed to arranging a holding-together federation. As I noted before, while it theoretically agreed with this scenario at the very beginning of the process, the national government was barely able to control it thereafter. The factors that launch transformations remain in effect as long as subnational elites possess enough resources to change the model of intergovernmental relations

and find a new point of equilibrium in this political field. Additionally, the scenario of decentralization is often accompanied by a nation-building process at the subnational level. It creates subnational political communities and thereby weakens the regional elites' potential for negotiation, making bargaining between the center and the subnational units more difficult. All these characteristics apply to the case I am observing.

The Soviet Union's government fell into this trap. Initially, the Soviet government delegated additional competences and responsibilities to the Soviet republics in order to manage the consequences of the very deep economic crises in the USSR. At the same time, due to rising conflicts between different ethnic groups, it had to expand these institutional changes to autonomous republics and autonomous oblasts. The pattern of decentralization pushed the center, forced by the republics' actions, to propose new decentralizing measures.

In March 1990 the Supreme Council of the Lithuanian SSR declared its decision to leave the Soviet Union and abolish the Soviet Constitution within the republic's territory. In response to the Soviet government's protests and its demand that a referendum should be held, the republic presented the following position—"the question of a referendum can be formulated in the following way: does Lithuania want to be integrated into the USSR?" (Lithuania, 1990).

The Soviet Union's reaction took the form of adopting two new laws in April 1990—"On the foundations of economic relations between the USSR and autonomous and Soviet republics" (Zakon, 1990a) and "On the division of responsibilities (*predmety vedeniya*) between the Union of SSR and the subnational units" (Zakon, 1990b). These laws created a new system of intergovernmental relations in the USSR, which at the time was quite controversial. On the one hand, for the first time these laws provided a single title for both Soviet and autonomous republics, namely "subnational units" (*sub'ekty federatsii*). All economic competences were distributed between the union on the one side, and all the republics on the other. The autonomous republics' status was significantly raised due to the requirement that union agencies of public administration could be established on the territory of a republic only with the republic's consent. On the other hand, the laws did not recognize the sovereignty of autonomous republics. This meant that the republics did not have the right to secede from the union and have relations with foreign states. Additionally, social and other non-economic competences were divided between the union and the Soviet (not autonomous) republics.

It is noteworthy that neither the RSFSR nor its autonomous republics or its autonomous oblasts featured among the main actors in the decentralization—the Soviet Union's government and the CPSU, the Estonian, Lithuanian, Azerbaijani, Armenian, and Georgian Soviet republics, the Nagorny Karabakh autonomous oblast, and the Abkhazian autonomous republic. By 1990, the RSFSR did not act as an active supporter of decentralization. At the same time, the USSR's measures toward federalization influenced Russia's intergovernmental relations as well. The Russian autonomous republics' economic and partial political autonomy increased due to the Soviet Union's reactions to the disintegrating

impact of the economic problems, the ethnic and territorial conflicts, and the actions of a few Soviet republics.

However, for the RSFSR the Soviet Union's decentralization and federalization resulted in an unintended consequence. Due to the union's laws of 1990, the RSFSR *de jure* lost control over its autonomous republics, which gained the same economic competences as Russia itself. This was especially painful for Russia since it had the most autonomous republics and oblasts in the USSR.

The Russian center intended to protect the integrity of its territory. In the summer of 1990, the Supreme Council of the RSFSR adopted the Declaration on the Sovereignty of the RSFSR. Boris Yeltsin, the Chair of the Supreme Council, justified this political step by citing the flawed and even dangerous nature of the USSR's law "On the division of responsibilities" for Russia. The declaration established the Supreme Council's power over the entire territory within the bounds of the RSFSR. However, the Soviet policy forced the Russian center to continue the process of decentralization. The declaration's article 9 declared "a need for significant increase in the rights (*rasshirenie prav*) of autonomous republics, autonomous oblasts, autonomous districts, and krais and oblasts of the RSFSR" (*Declaration*, 1990). Thus, Russia's center reacted to the danger of disintegration on the one hand, but selected the same strategy as the union's center on the other, i.e., it continued decentralization within the bounds of the Russian Republic.

At the same time, this version of decentralization concerned not only autonomous subnational units but administrative regions as well. The declaration was the first official document that committed to raising the political status of administrative (not ethnic) units in the RSFSR. Russia's center implemented this strategic measure in order to smooth the territorial political asymmetry that had been created by the Soviet governments. The Supreme Council's decision was also significant in terms of building a pro-Russian (and probably anti-Soviet) coalition. The fact that the Soviet Union made equal the statuses of the Soviet and autonomous republics ensured the republican elites' loyalty to the Soviet Union. The Russian government needed its regions' support as well, and so was ready to reward the rest of the units with administrative and fiscal autonomy.

With this in mind, it is no surprise that the declaration led to retaliation from the autonomous republics. One by one, they declared their independence and sovereignty. In early August 1990, *The Declaration on Sovereignty of the Karelian ASSR* was adopted; on August 30, *The Declaration on Sovereignty of the Tatar SSR*. In October 1990, at least five autonomous republics declared their sovereignty. They were the Buriat SSR (October 8), the Bashkir SSR (October 11), the Kalmyk ASSR (October 18), the Mari ASSR (October 22), and the Chuvash ASSR (October 24). On October 25, *The Declaration of Sovereignty of the Gorno-Altai Autonomous Oblast* was declared, an oblast that would soon be transformed into the Republic of Altai. In November the Checheno-Ingush Republic adopted its own declaration. Some of the republics—Tatarstan, Buryatia, and Bashkiriya—raised their status in these documents, while others preserved the word "autonomous" in their names.

The Russian declaration on sovereignty was a strike against the union's integrity. In response, the union's center decided to hold a referendum with only one question: "Do you believe that the USSR should be preserved as a renewed federation of equal sovereign republics, where the rights and freedoms of persons of any nationality would be guaranteed?" Four days before the referendum, the government presented the *Agreement on the Union of Sovereign Republics* to the mass media. According to this project, "the republics, the participants of the agreement, enter into the Union directly or as part of other republics" (Dogovor, 1991: 2). At the same time, every republic was declared to be sovereign and equal with the others. Thus, this version of the union's agreement transformed all republics into Soviet ones.

The referendum was held on March 17, 1990 in nine Soviet republics. Armenia, Estonia, Georgia, Latvia, Lithuania, and Moldova did not participate in the voting. In spite of this, the referendum's turnout was 79.5 percent. The proportion of the union's supporters comprised 76.43 percent.

On June 12, 1991, Yeltsin was elected President of the RSFSR. A year earlier, he had invited the autonomous republics "to take as much sovereignty as they could digest." At the same time, several autonomous oblasts of the RSFSR raised their status to the level of autonomous republics. For example, the Adygea autonomous oblast became the Soviet Socialist Republic of Adygea in the RSFSR, the Gorno-Altai autonomous oblast became the Gorno-Altai SSR in the RSFSR, and the Karachay-Cherkessia autonomous oblast became the Karachay-Cherkessia SSR in the RSFSR.

By 1991, the union's center had created a particular institutional context that forced Russia's central government to act in a certain way. The autonomous republics' status equaled that of the Soviet republics and so was capable of launching the disintegration of Russian statehood. That is why Russia's center had to seek to ensure the autonomous republics' loyalty by providing them with special high political status.

Clear evidence of such a strategy can be seen in the Supreme Council of the RSFSR's response to the August 1991 Soviet coup d'état attempt. Regional elites reacted to the coup in different ways—some of them openly opposed the GKChP (*Gossudarstvennyi Komitet po Chrezvychainomu Polozheniyu*), while others preferred to stay silent and wait for the coup's results. Under these circumstances, the Supreme Council empowered President Yeltsin with the ability to dismiss the heads of regional parliaments and appoint new ones (Postanovlenie, 1991). But that decision did not affect the republics at all. Their autonomy remained inviolable, while all other subnational units became part of unitary intergovernmental relations.

In 1991, the Soviet Union finally collapsed. The RSFSR became an independent sovereign federal state with an asymmetric model of intergovernmental relations. The RSFSR's republics were so strong that the federal government could not prevent them from seeking a new model of relations with the federal center. In March 1992, the Supreme Council of Tatarstan (the former Tatar SSR) held a referendum in the territory of the republic with only one question: "Do

you agree that the Republic of Tatarstan is a sovereign state, an actor according to international law that manages its relations with the Russian Federation and other republics and states on the basis of equitable agreements?" A total of 61.3 percent of Tatarstan's voters supported this formulation. Soon, the Republic of Tyva and the Republic of Sakha (Yakutia) declared that they also would not be subordinated to the Constitution of the RSFSR.

The described processes demonstrate that Russian federalization happened in accordance with the scenario of decentralization. Russia's federal center had to decentralize governance and arrange an asymmetric model of intergovernmental relations. In 1992 the federal government initiated the creation of the Federal Agreement (*Federativnyi Dogovor*), a document that would establish a new system of intergovernmental relations in Russia. It did not form a new state; rather, it delimited the competences of different levels of government within the state that already existed. The most important aspect of the agreement was that all Russian regions could sign it. That meant republics, krais, oblasts, cities of federal subordination, the autonomous oblast, and autonomous districts—all became "subjects of the federation," subnational units of the federal state.

At the same time, the agreement stipulated asymmetry in federal relations. The document consisted of three parts: an agreement between the RSFSR and the republics, an agreement between the RSFSR and krais, oblasts, and cities of federal subordination, and an agreement between the RSFSR and the autonomous oblast and autonomous districts. Each of those documents included a different set of powers and competences that would be delegated to those types of subnational unit. The asymmetry was strengthened by an additional protocol that provided at least 50 percent of seats in one of the parliamentary chambers of the Russian Federation for republics, autonomous districts, and the autonomous oblast. Thus, the Federal Agreement created a new federal structure, where ethnic federalism was replaced by asymmetrical federalism with different types of subnational unit.

In 1992–1993 the agreement reflected an equilibrium that was suitable for all actors in the political process. Russia became a truly federal state, the federal center could preserve the integrity of most of its territory, and the subnational units agreed with the established system of intergovernmental relations. But the fate of this model was less fortunate. Two subnational units—Tatarstan and Chechnya—refused to participate in the agreement. They insisted that their relations with the Kremlin should be unique, and that they deserved special agreements. Moreover, since the agreement was an initiative of the federal government, the center believed that it could alter the agreement's provisions as soon as external circumstances changed. This possibility was realized quite soon: the 1993 Constitution of the Russian Federation completely eliminated the Federal Agreement.

By the end of 1992, the Russian political system felt the destructive results of a conflict between the executive and the legislature at the federal level. This concerned the sphere of federal relations as well. In October 1991, the Supreme Council stripped the president of the right to appoint the heads of regional

governments. But Yeltsin disregarded the law and continued appointing regional leaders and thereby controlling the regional elites.

The problem of double legitimacy gave rise to an open struggle for power and competences. The regions' support became one of the main resources in this process. This especially concerned politically and administratively strong republics. The president had the use of financial instruments for bargaining with the regions. The parliament also adopted many laws providing financial support for the latter. But only the executive, controlled by the president, had genuine opportunities to find money or other ways to appease regional elites. In 1992–1993, Yeltsin signed many presidential decrees on “urgent measures aimed at public support” of different regions, mainly republics. At the same time, the Supreme Council's acts were targeted at autonomous districts, krais, and oblasts, but they did not bring any real profits for these regions.

The parliament's main resource was the ability to change the Constitution of the RSFSR that had been adopted as far back as 1978. Initially, the constitution had not specified the position of the Russian President or rules of interrelations between the president and the republican parliament. The introduction of the institution of the presidency demanded that some important constitutional changes be made in 1990. But later, to solve the problem of double legitimacy, the parliament made some constitutional alterations that strengthened the legislatures' control over the executive. The president, in turn, insisted that a new constitution should be designed and adopted, one that would reflect Russia's modern reality.

A new constitution became the main way to stop the conflict. Both sides—the Presidential Administration and the Constitutional Commission of the Supreme Council—proposed their own versions of the constitutional project. They contained two different models of intergovernmental relations.

The presidential project reflected the executive's policy in the field of intergovernmental relations in 1992 and at the beginning of 1993. The president supported the Federal Agreement, which was supposed to be incorporated into the text of the new constitution (*Constitution*, 1993a). This meant that diverse types of subnational units would have been responsible for implementing different set of competences. Although the parliament's project admitted the importance of the Federal Agreement as well, it sought to equalize the administrative statuses of subnational units (*Constitution*, 1993b). There is a quote by Viktor Sheinis, the executive secretary of the Constitution Commission, which brilliantly describes the situation during that phase of constitutional bargaining:

The current situation looks like a game on two chessboards simultaneously. But this is not chess; this is *poddavki* (“losing chess,” a game where the main goal is to lose and let the opponent take all one's pieces). There is a game between the former autonomous units and the president on the first board, and there is another game between the former autonomous units and the parliament on the second board.

(Interview, 1993)

The republics, which had become politically strong in the last seven years, were against even the president's project, which was quite loyal to them. The Supreme Council of the Republic of Bashkortostan claimed that this proposal "openly ignores the declarations on the republics' sovereignty" (Eksperty, 1993). By that time, the republics' power was so significant that the center could not disregard their position.

Thus, the process of designing the new constitution was blocked. That problem was resolved by a decree from Yeltsin, which dissolved the Russian parliament in October 1993. Later, the president declared that all regional parliaments in Russia should be dissolved except republican ones.

This seemed like a new victory for the republics, but then Yeltsin used the parliament's defeat to suppress the republican elites' influence and neglect the negative effects of his previous measures aimed at gaining the republics' loyalty. The president's team prepared a new version of the constitution. The constitution's concluding section de facto annulled the Federal Agreement. In this project all types of subnational units received the same responsibilities. The two features unique to the republics were their right to have their own constitutions and the statement that the republics were states. As a result, the 1993 Constitution established the new federal system, which has been functioning until the present day. Unlike the previous system, this one is symmetric. The differences in titles and means of formation of the different types of subnational unit were not loaded with special administrative or political meaning. This was the first attempt to build a federation with equal rights of all subnational units.

If we trace the full process of Russia's federalization, we discover that it resembles the scenario of decentralization. However, the 1993 Constitution does not fit into the picture. While the scenario of decentralization is known to produce asymmetric systems, Boris Yeltsin designed a symmetric constitution. How can this difference be explained? I argue that the main reason was the absence of demands for autonomy from most of the subnational units. In the 1980s, Russia's republics did not threaten the USSR or the RSFSR, but received a significant volume of responsibilities and very high political status. The same situation was repeated in the early 1990s. The transformation of the Russian regions into subnational units of a federal state was a by-product of other processes that often had not even touched the regions that became autonomous subnational units later. Gorbachev's actions against the ethnic conflicts and secessionist movements in certain Soviet republics, the struggle between the USSR and the RSFSR for the autonomous republics' loyalty, the clash between the national executive and legislature in the early post-Soviet Russia, and, finally, the attempt to curb the federal asymmetry established as a result of earlier actions—all were situations where conflicts between politically strong actors favored Russia's regions and their autonomy. They acted as a *tertius gaudens*, "literally, 'the third who enjoys', that is, the third party which in some fashion or another draws advantage from the quarrel of two others" (Simmel and Wolff, 1950: 154).

As with other scenarios, the *tertius gaudens* significantly affects the particularities of intergovernmental relations. When regional autonomy is given rather

than won, regional communities do not perceive it as something valuable that they need to protect. Hence, regional elites do not have a rational interest in supporting federal relations at all. I will demonstrate below that this distinction between *tertius gaudens* and “classic” scenarios dramatically influenced the survival of the Russian federal state in the 2000s.

It is noteworthy that the development of intergovernmental relations in the 1993–1999 period mainly displays the realization of the scenario of decentralization. The center’s attempts to render all regions’ statuses equal did not meet with success. New formal institutions did not take into account the actual positions that the republics had taken by the end of 1993. Although politically the president and his government were the strongest actors after the parliament’s dissolution, economically and administratively the federal government continued to be extremely weak (Treisman, 2001). As a result, informal rules that often contradicted the constitution dominated in day-to-day interactions between the center and many subnational units.

In 1994, a new process in Russian intergovernmental relations was launched: the federal government and some of the subnational units signed so-called bilateral agreements. Tatarstan became a pioneer of this. Two years earlier, this republic had refused to sign the Federal Agreement and then de facto ignored the referendum on the new constitution. The republican leaders refused to hold elections of Federation Council members and State Duma deputies without an agreement on “the redistribution of responsibilities and mutual delegation of competences” between the Russian Federation and the republic. To integrate Tatarstan into the Russian legal and political space, the center agreed to establish a specific pattern of intergovernmental relations—in fact, one that looked like an agreement between two independent states.

Although such agreements should have been made as exclusive measures for two republics—Tatarstan and Chechnya—the center could not avoid expanding this practice to other subnational units. Soon, Kabardino-Balkaria, Bashkortostan, and many other republics of the Russian Federation concluded similar agreements with the federation. The titles of three of the agreements included mention of “mutual delegation of competences,” but all of them included norms that violated the constitutional rules of distribution of responsibilities in Russia (Rabko et al., 2001).

By 1995, due to the unfavorable economic situation and political instability at the federal level, the center was characterized as an extremely weak political actor. The federal government’s main political objective was that Yeltsin be re-elected in 1996. As the president’s and his public policy’s popularity were extremely low, regional elites became one of the main resources for achieving the center’s electoral goals. In order to seek the regional elites’ loyalty, the center was ready to guarantee that it would abstain from any attempts to influence internal political processes in the regions by any means. Another price for the regional leaders’ loyalty was the center’s agreement to hold gubernatorial elections in the administratively based subnational units, which had been denied this right since the moment of the 1991 coup d’état attempt. This achievement

raised such regions' and their leaders' political status. The elections allowed them to acquire their own legitimacy and establish the complete control of regional communities and political systems.

The regional leaders' lobbyist potential was also strengthened as a result of changes in how Federation Council members were appointed after 1995. Instead of direct popular elections, as in 1993, in accordance with the new system, two representatives of each region—a governor and a speaker for the regional legislature—came into the upper chamber *ex officio*. Until 2000, they successfully used this channel to present and protect their and their regions' interests: they “defied the president’s will on a number of issues, rejecting some of his nominees for the Constitutional Court as well as his candidates for Procurator-General” (Remington, 2007: 133).

At times, the center attempted to restrain regional governments from explicit violations of the constitutional order. For instance, in 1996, the Constitutional Court of the Russian Federation abandoned some norms of the Altaiskii krai’s and Chitinskaya oblast’s constitutions (called *ustavy* in the non-republican subnational units in Russia). The two units claimed that the regional executives were controlled by the legislatures, and allowed the latter to appoint the governors (Gel’man, 1998). At the same time, the center’s attempts to dislodge the directly elected governors faced tough resistance from the Council of the Federation, and a lack of legal procedures to implement these measures (Gel’man, 1998).

The period of 1994–1996 was the time of the first war in the Republic of Chechnya, which also sent mixed signals for intergovernmental relations. The case of Chechnya deserves to be analyzed as a notable exception to the *tertius gaudens* scenario in Russia. In 1990, the Autonomous Republic of Chechnya and Ingushetia declared its sovereignty, as many other republics did at the same time. They took advantage of the USSR’s measures aimed at weakening the Soviet republics, particularly in the RSFSR. As early as 1991, radical nationalists headed by Dzhokhar Dudayev, a former officer of the USSR Army, captured government offices and began to govern in the republic. Since these people’s initial actions were against Soviet governmental structures in Chechnya, the Russian government and parliament did not prevent the increasing influence of the nationalists. By the autumn of 1991, when Dudayev demonstrated his complete independence, the Soviet and Russian authorities could not coordinate their efforts to stop the centrifugal processes in the republic.

Unlike most of the Russian regions, in Chechnya an ethnically based political community was formed and mobilized in a short period of time. In 1990, the Congress of the Chechen People declared two main goals: elimination of the deprived status of the Chechens in the territory of the republic and strengthening the Chechen nation through the expansion of the republic’s territory at the expense of other subnational units’ territories (Tishkov, 2001). Dudayev’s supporters were ready to protect Chechnya’s independence at the cost of their lives. The Russian government was frightened by such determination from the Chechen population and consequently did not enter open conflict with Dudayev until 1994. As a result, Chechnya became a true enclave within the territory of

the Russian Federation and a crucially important factor in the destabilization in the North Caucasus. At the very end of 1994, the Russian Army finally invaded Chechnya and became bogged down in a long and bloody war.

The influence of this step by the center on intergovernmental relations was contradictory. On the one hand, the center demonstrated to all republics in Russia that it would use its military forces to protect the country's territorial integrity. On the other hand, the federal government turned out to be incapable of achieving a victory in a short timeframe.

The war involved casualties from many different parts of Russia. It was extremely unpopular among the general population and the elites. International human rights organizations successfully lobbied for the Russian government to stop the war, doing so through the governments of European countries, which pressed those claims onto the Russian government. Right before the 1996 presidential campaign, the Chechen war was one of Yeltsin's weak points as a candidate for re-election. Before the second round of elections, Yeltsin declared that the Russian Army had defeated Dudayev's regime, and the soldiers could leave Chechnya. And as a result, the republic again became an independent but unrecognized state.

The case of Chechnya demonstrates how successful the regional elites could be if they fought for full autonomy and even sovereignty in the 1990s. The Russian government would struggle to wage wars in different parts of the country. Due to its economic and political weakness it was ready to make concessions to regional elites' demands. At the same time, most of the Russian regions used the situation to increase their rent, but not to achieve radical changes in intergovernmental relations. For example, the regions did not launch a campaign for adopting a new constitution that would include more decentralized patterns of federal relations.

After Yeltsin's victory in the 1996 presidential campaign, the center again tried to reduce the regions' autonomy. The federal government initiated a discussion on a need to align regional legislations with the federal legislation. Yet there was no single approach to implementing this task among the political elites. The heads of kraia and oblasts supported the idea of equalizing all subnational units' rights and responsibilities, while the republics' presidents insisted that the federal laws had been imperfect and had not taken into account the particularities of territorial development in Russia (Zorin et al., 1999). A compromise was formulated by Vladimir Zorin, then Chair of the State Duma's Committee on nationalities: "The alignment of local legislation with the Constitution of the Russian Federation is a two-way street" (Zorin et al., 1999: 335). But, at the end of the day, the founding constitutional principle of regional legal spaces' conformity to federal legislation was not realized until the beginning of the 2000s.

By 1999, the opposition between the center and the regions became explicit. This was influenced by two factors. First, the 1998 financial crisis in Russia forced the federal government to revise the existing pattern of intergovernmental relations. In Chapter 2, I will demonstrate how significant the government's measures were in the economic and financial spheres in that period. Politically,

they faced the discontent of the economically strongest regions' elites. Second, the coming 1999 electoral campaign opened a window of opportunity for the regional leaders to radically change the system of intergovernmental relations. A group of regional leaders, headed by Yury Luzhkov, Moscow's mayor, and Mintimer Shaimiev, the President of Tatarstan, founded the political coalition Fatherland—All Russia (*Otechestvo—Vsyä Rossiya*, OVR), which sought both to take the majority of seats in the State Duma and to nominate a candidate for the 2000 presidential campaign. In other words, the regional elites declared their intent to control all important positions at the federal level.

The regional leaders' coalition was a real threat for Yeltsin and his team. During the 1990s, the governors had established well-functioning political machines in the regions, which were completely obedient to them. Unlike the communist opposition, the regional leaders had real resources to win against the unpopular and economically weak federal government.

However, the regional opposition's actions were implemented too late. The federal government was able to form an alternative union of regional leaders, mainly including the heads of administratively based subnational units and small political parties. Its name, Unity (*Edinstvo*), clearly demonstrated the main political division in that electoral campaign. The main source of Unity's increasing popularity was support from Vladimir Putin, the new head of the Russian government. Another factor contributing to the results of the elections was the population's reaction to a chain of acts of terrorism in three Russian cities including Moscow. Vladimir Putin declared the start of the second Chechen campaign to eliminate the subnational regime that was a source of terrorist groups in Russia. Thus, both the federal center, with Vladimir Putin as its face, and Unity were presented as the main defenders of the Russian population.

Under these circumstances, OVR failed in the 1999 elections. It took third place, while the Communist Party and Unity took first and second. This failure should be considered a key factor in the further development of intergovernmental relations in Russia. Indeed, the OVR campaign was the only real attempt by the regional elites to impose their agenda on the center and revise the constitutional foundations of relations between governmental tiers. They attempted to increase their political status—and failed. The subsequent merger of OVR and Unity in United Russia (*Edinaya Rossiya*) emphasized that the regional leaders had admitted their defeat.

At the same time, the 1999 electoral campaign became an important lesson for the center. Before, the governors had been seen as rent-seekers who used every opportunity to extract additional benefits from the federal center. But now, the center recognized some regional leaders as political challengers who were able both to control political processes in their home subnational units and to influence political outcomes at the federal level.

Near the end of 2000, Boris Yeltsin resigned, and Vladimir Putin became the acting president of the Russian Federation. While the Communists were the main political opponents for Yeltsin's government, Putin's rise to power was characterized by his struggle with the strong regions. As a result, one of his first presidential

decisions was aimed at achieving the old goal of aligning regional legislation with the federal constitutional norms. The first measure to accomplish this was the establishment of seven federal districts headed by the presidential envoys (titled Plenipotentiary Representatives of the President of the Russian Federation in a Federal District)—the Northwest, Central, Southern, Volga, Urals, Siberian, and Far Eastern districts.

The institution of the presidential representative was nothing new to the Russian federal system. The Russian President had had his own representatives in each subnational unit since 1991, when Boris Yeltsin was able to fire all the regional leaders who had supported the 1991 coup d'état. But soon the federal center faced a classic principal–agency problem: the representatives integrated with the regional elites and became a channel for the representation of regional interests at the federal level. Now, the former presidential representatives were demoted and re-subordinated to the presidential envoys in the federal districts. Many observers agreed that the main goal Putin was trying to accomplish was to ensure control over law enforcement agencies in the regions. That was the purpose for which the system of management in this field was transformed.

Brian Taylor (Taylor, 2011: 112–155) describes the process perfectly. In 2000, special departments of the Ministry of Internal Affairs and the Procurator General's Office were established in each federal district. These agencies received not only special interregional cases to investigate, but also the task of controlling how their regional-level departments worked. Together with the new practice of rotation of regional departments' top officials (Petrov, 2007), the change was a severe blow to the links between governors and heads of law enforcement agencies, which had been strengthened during the 1990s.²

Over two years, the envoys, together with regional procurators, successfully forced regional governments and legislatures to edit regional constitutions and laws. In 2000, Putin, just elected as the Russian President, pushed two other initiatives that radically reduced the autonomy of the regional elites. The first allowed the president, with the permission of the court, to fire governors and dismiss regional legislatures if they violated federal legislation. The second changed the procedure for appointing the members of the Federation Council. Instead of the heads of regional executives and legislatures being appointed to the council, their representatives would be appointed to work in the upper chamber of the Russian parliament. This measure deprived the regional leaders of their only official channel for representing their interests. As such, they fiercely resisted the adoption of these initiatives. However, Putin used the pro-centrist majority in the State Duma to overcome the upper chambers' veto.

The new procedure led to a significant change in the membership of the council. The regions chose different models for the selection of their representatives:

Some regions chose prominent national political figures to serve as their voices in Moscow; others named high-ranking business executives; in other cases they sent former governors and legislators with deep roots in their

home regions to represent them. About half of the members were Moscow based, the other half came out of the regions that sent them. [...] It is also generally believed that at least some members have “bought” their seats by bribing the governors or regional legislators who selected them.

(Remington, 2007: 132–133)

Even if some of the regions were ready to continue using the council as a channel for representation of interests, most of them were driven by other motives.

Finally, in September 2004, the president used the Beslan tragedy to de facto eliminate gubernatorial elections. Putin proposed that regional legislatures should select the heads of regions from candidates nominated by the president. Publicly, the president initiated this change to “increase the governmental agencies’ effectiveness” (Putin, 2004). At the same time, the measure corresponded with the center’s strategy aimed at weakening the political independence of the regional elites. Despite the federal government’s policy at the beginning of the 2000s, the governors preserved their influence over internal regional processes and protected their own interests. For instance, they resisted the center’s attempts to secure United Russia’s majority in the regional legislatures (Golosov, 2011). In order to do so, the governors supported regional parties and/or regional branches of the federal political parties so as to dissolve the influence of the president’s party at the regional level. For the Presidential Administration, this was a sign that the political autonomy of the regional governments could not be eradicated without asserting the center’s control over the process of the governors’ appointment.

This initiative was completely supported by the new Russian parliament elected in 2003. Now, United Russia gained the constitutional majority in the lower chamber, while the regional representatives in the upper chamber were obedient to the Presidential Administration. Thus, the center achieved the governors’ complete loyalty to the president personally.

In 2004, the federal government initiated one more change in the federal system in Russia—it launched the process of merging the regions. The discussion on the need to decrease the number of subnational units became very active after Putin’s first federal reforms. Many believed that the formation of the federal districts was the first step toward radical changes in the Russian political map. But at the end of the day, this merger included subnational units with complex relations between autonomous districts and other regions.

The autonomous districts are a new example of the specific scenario of the Russian regions’ federalization. They belong to the group of subnational units formed on an ethnic basis (along with the republics and an autonomous oblast). In the early Soviet Union, the autonomous districts were formed in the territory of certain oblasts and krais to provide additional support for small ethnic groups, which needed to be protected by the state in order to preserve their unique cultures. At the same time, they did not have any autonomy in their relations with both the central government and the region that shared the territory with the

district. The 1992 Federal Agreement was the first document that referred to the federal districts as “subnational units” (*sub’ekty federatsii*). Compared with all other types of region in the Russian system, the federal districts and federal oblasts had the lowest statuses. In the 1993 Constitution their rights and responsibilities were made equal, but in reality the links between the districts and the regions were strong, especially in the sphere of finances, and have been regulated by special agreements between the subnational units.

Some autonomous districts were located in territories rich with oil, gas, and minerals, giving them the potential to become successful and prosperous regions. Other units did not have any economic advantages and were depressed areas—they became the first that had to be unified with other regions.

During the three years of 2005–2008, six autonomous districts (the Komi-Permyak Autonomous District, the Taymyr (Dolgano-Nenets) Autonomous District, the Evenk Autonomous Area, the Koryak Autonomous District, the Ust-Orda Buryat Autonomous District, and the Agin-Buryat Autonomous District) were absorbed by larger subnational units. But that experiment was interrupted—not all autonomous districts underwent mergers during the campaign. The federal government ran the experiment in order to identify the opportunities and risks associated with such mergers, and found that the socio-economic effects were quite modest, while the political risks were very high (Zubarevich, 2006).

The last part of the strategy for weakening the Russian regions was a change in electoral formula for the State Duma. The parallel system, where half of the deputies were elected in single member districts, was replaced by a proportional system in the only multi-member district. Before, the deputies from the constituencies had often come into conflict with the governors. But at the same time, due to the need to be re-elected, they used their positions to lobby the regions’ interests in the federal parliament. It is noteworthy that they did not have close relations with political parties, since their electoral perspectives were affected by personal popularity among the electorate. That was why the transformation of the electoral system led not only to strengthening the Russian party system and the president’s control over the parliament, but also to further centralization of intergovernmental relations (Golosov, 2011).

Overall, I believe that all the measures implemented by the federal center in 2000–2005 were parts of a strategy aimed at limiting the regions’ autonomy and revising the pattern of intergovernmental relations that had formed during the 1990s. But the most important issue is that those revolutionary changes did not raise any real protests from the regional elites and communities. In 2000 the governors publicly demonstrated their discontent and refused to approve the president’s laws. However, even then, the governors admitted the futility of their attempts. Mikhail Prusak, the governor of Pskov Oblast, explained their behaviour at that time: “We should just relax and enjoy. We failed, that’s why we should leave with dignity” (Sovet, 2000). As a result, the members of the upper chamber managed to bargain for minor changes in the president’s projects and in the end agreed with the reform of the Federation Council. Three years later, when the president declared that the governors would not be elected by the

regions' populations, Yury Luzhkov and Mintimer Shaimiev, the leaders of the regional rebellion at the end of the 1990s, were the first to proclaim their support for the president's proposal.

Thus, during his first presidential term, Vladimir Putin was able to dramatically change intergovernmental relations in Russia. The president became the dominant actor across the whole territory of the country. He possessed complete control over the regional elites, who were deprived of any ability to impose their interests on the federal government or even influence the decision-making process at the federal level. The elimination of the popular gubernatorial elections was so severe a blow to regional autonomy that during the next eight years Russian federalism, at least institutionally, was dead.

Putin's federal reforms led to significant administrative strengthening of federal governmental agencies and their territorial departments. The governors, completely controlled by the center, performed the roles it prescribed them. Consequently, the Kremlin did not have to intervene in internal regional political processes often. Initially, the president reappointed most of the previously elected governors. In 2005, 44 governors were appointed in accordance with the new model. The governors were changed in only 12 regions. In 2006, nine cases of governor appointment led to four instances of new regional heads. The leaders of the regional rebellion in the 1990s kept their positions for a long time. Mintimer Shaimiev, Yury Luzhkov, and Murtaza Rakhimov resigned only in 2010, when Dmitry Medvedev, the next Russian President, was in power. The federal center had not previously needed this to be done, since the governors had brilliantly managed the tasks it had assigned them. As soon as the center decided to have these people resign (due to operational needs and bad relations between President Medvedev and Yury Luzhkov), it could make it happen without any serious effort.

Simultaneously, the center weakened formal channels of representation of regional interests. Since 2000, two structures had been responsible for this function: the constitutionally approved Federation Council and the State Council, a consultative assembly of governors headed by the president.

The latter was established in 2000 to comfort the regional leaders who had been supplanted as members of the upper chamber of the parliament. In the beginning, the State Council was empowered to discuss different directions for public reforms and propose recommendations for the president and the federal government. During the first three years, the State Council participated in the designing of a new law on redistribution of governmental tiers' responsibilities and competences (this was headed by Mintimer Shaimiev) and in proposing an alternative to the education reforms (a working group was led by Sergei Katanandov, then head of the Republic of Karelia). While the State Council's influence on the process of administrative decentralization was conspicuous, its ideas on the modernization of the education system in Russia were not taken into account by the government (Starodubtsev, 2016). After 2004, when Vladimir Putin was re-elected for a second term, the council took on a decorative function and did not possess enough resources to so much as express the regions' will in the process of decision-making at the federal level.

The Federation Council was significantly damaged by the 2000 reform. Very soon, it became a mechanism for the unquestioning acceptance of bills that had been approved by the lower chamber of the parliament. As a result, the regional elites lost their interest in struggling for the appointment of candidates to the council.

In 2009, President Dmitry Medvedev proposed a new model for appointing members of the Council of the Federation: now, only a person who had been elected in regional or municipal elections could seek to become a “senator.” In theory, the measure was aimed at strengthening the upper chamber of the Russian parliament. Participation in regional or municipal elections would have established a link between the politician and the regional political agenda.

Soon, in the first year of the new model’s implementation, Valentina Matviyenko, former deputy prime minister of the Russian government and the governor of St Petersburg, took part in the municipal elections in St Petersburg. Having won, she became eligible for nomination to the Federation Council, and once nominated she was immediately elected its chair. Other candidates all around Russia also used the same strategy to become federal parliamentarians.

The reform did not lead to the empowerment of the Federation Council. First, the nature of the Russian political regime significantly limits the opportunity for oppositional candidates who had not been approved by the government to win elections. Even though electoral processes at the municipal level are often more competitive than at regional and especially at federal levels, they work in accordance with the general political rules, when such elections are used by federal players to achieve their own significant goals.

Second, the council suffered (and continues to suffer) from an institutionally weak position in Russia’s constitutional system: while its control functions (including the right to decline a draft law adopted by the State Duma) are quite significant, its abilities to propose and push alternatives are negligible. Indeed, when the State Duma is under the president’s complete control, any attempts by regional representatives to defend territorial interests are fruitless, since the lower house is able to overrule the council’s protests.

This is why Russia is characterized by the degradation of the institutional environment of regional interest representation in its federal system. Certainly, such conditions have strengthened informal institutions. However, if in the 1990s such informal relations were in the regional leaders’ favor, now they act against those leaders’ interests. In the next chapter I will show how the central government changed intergovernmental financial relations to dramatically reduce the regions’ opportunities to act independently.

In 2009, President Medvedev declared that the current model of the governors’ appointment would be able to exist for more than 100 years (*Medvedev*, 2009). By the 2010s, both the elites and the Russian population demonstrated a consensus on the current state of federal relations. In 2010–2012, the Gorbachev Foundation and the TSIRKON Group conducted a study: *The State and Prospects of Russian Federalism’s Development in the Mass Consciousness and Experts’ Assessments*. According to their conclusions, “in the mass consciousness

and experts' assessments there is no consistent position on regional autonomy: there is no significance dominance of federalist, decentralist or regionalist attitudes" and "today, neither citizens nor regional elites formulate a demand for political and administrative autonomy of the subnational units (*sub'ekty federatsii*)" (*K Novoi*, 2011: 5–7).

Surprisingly, President Medvedev had to change the system of gubernatorial elections by the end of his presidential term. In 2011 and 2012, between the parliamentary and presidential elections, Russian society underwent a wave of political protests (Gel'man, 2013). As a result, the Kremlin, headed by Medvedev, took certain reformist steps; one of these was the return of direct general elections of governors in the regions.

That situation again reproduced the logic of *tertius gaudens*. The main slogan of the protests in 2011–2012 had been "free and fair elections." The opposition saw the return to gubernatorial elections as a way to increase political competitiveness in the regions, but not as an important step toward the political autonomy of the regional communities. In its turn, the center intended to use the regional elections to divert regional protesters' attention away from support of a nation-wide oppositional movement.

To reduce possible risks to intergovernmental relations from gubernatorial elections, Vladimir Putin, who had been prime minister of the Russian government in 2008–2012 and who would be the next Russian President from 2012, declared that there was a need to establish special mechanisms to control the lists of candidates in the gubernatorial elections. United Russia supported him in this. Soon, they suggested two mechanisms, which were shamelessly called "filters." The first—the presidential filter—empowered the president to "consult" with candidates. The law did not explain what these consultations meant and how they were able to influence the list of candidates, but all participants in the political process understood them to express the president's right to reject candidates on his or her own.

The second filter—the municipal one—was proposed by the mayor of Saratov when the law was being discussed in the State Duma. According to that idea, a candidate for governorship should collect agreements from a significant part (5–10 percent) of the deputies of municipal councils and elected heads of municipalities in order to be registered and able to participate in the elections.

The first regional electoral campaigns demonstrated that even under such severe conditions, the gubernatorial elections visibly revived political competitiveness in the regions. In fall 2012, the campaigns were held in five subnational units. In two of them—the Ryazan and Bryansk oblasts—oppositional candidates had a real chance to win. The incumbents had to bargain with the opposition to save their positions.

For example, in Bryansk Oblast, Mikhail Marchenko, the Liberal Democratic Party of Russia (LDPR) candidate, received Federation Council membership, while Andrei Ponomarev, a candidate from the Yabloko party, became a deputy governor for economic policy. As a result, Nikolai Denin, the incumbent, could beat his main challenger, the Communist Vadim Potomsky. It is noteworthy that two years later Putin appointed Potomsky acting governor of Oryol Oblast and

permitted him to be elected governor. This evidenced that the center was struggling with uncertainty resulting from competitiveness, but not with politically strong and popular candidates if they were ready to pledge allegiance to it.

In Ryazan Oblast, Igor Morozov, a candidate from Russia's Patriots party, was the most popular out of all candidates. Even so, after negotiations with Governor Oleg Kovalyov, Morozov was also appointed the region's representative in the Federation Council. He explained his decision by the need to save the region from "a cleavage in society, a cleavage in the elite, including the political elite" (*Favorit*, 2012).

The first wave of the gubernatorial elections confirmed the federal center's fears: the electoral campaigns were accompanied by a growth in the popularity of oppositional politicians, potentially making them harder to negotiate with in the future. In addition, in some regions, particularly in the North Caucasian federal district, elections could amplify the effects of plural societies and uncover ethnic conflicts that had been frozen by the federal center's policies in previous times. That was why, at the beginning of 2013, a new law on gubernatorial elections was adopted. It allowed the regional parliaments to return to the model that had been in place between 2004 and 2012. By this point, six regions—Dagestan, Ingushetia, Kabardino-Balkaria, Karachay-Cherkessia, North Ossetia, and Adygea—rejected general gubernatorial elections. At the same time, with the dominance of United Russia in the regional legislatures, the center was able to cancel elections in any region in any time.

Vladimir Putin blocked all proposals capable of increasing uncertainty in the political system, even if they were initiated by a member of his team. In 2011, Valentina Matviyenko, the chair of the upper chamber of the Russian parliament, proposed a bill that could have introduced general elections of one of two representatives from a region to the Council of the Federation. However, the Presidential Administration replaced it with its own alternative. According to the president's conception, a candidate for the position of a governor should declare the names of three potential senators before the gubernatorial elections. Then, after his or her victory, he or she would be obliged to appoint one of them to be a member of the Federation Council. As a result, the center again blocked the way for politicians elected by the regional communities to represent regional interests at the federal level.³

All this history of the development of Russian federal relations leads to some important conclusions.

First, we see the effectiveness of William Riker's idea of federalism as a very unstable kind of institutional design, an unsteady equilibrium affected by internal and external shocks. Central governments are not interested in sharing their responsibilities and delegating political autonomy to lower tiers. They do so only under significant pressure and roll the situation back as soon as favorable circumstances allow it. Given this, the subnational units' elites have to constantly build and realize strategies aimed at strengthening and defending their autonomy. Their actions should include demands to form constitutional frameworks that will protect their rights in the long-term perspective.

Second, the federal constitutional design in Russia was formed not as a result of bottom-up demands, but as the by-product of political processes that did not directly concern intergovernmental relations and statuses of subnational units. In 1985–1993, the federalization of the Russian political space was affected by the escalation of political struggles in which future subnational units did not participate. Further, during the 1990s, intergovernmental relations were characterized by the formula of “loyalty in exchange for autonomy.” The regional elites, which controlled electoral results in their regions, blackmailed the center in order to rule without regard for federal laws, gain additional federal money and keep the subnational political regimes they wanted. From their viewpoint, these were not actions in the support of (con)federalization—the regional leaders merely benefited from the general weakness of the central government and tried to extract from that situation as much profit as they could. Their motivation probably only changed in 1998–1999, when the most prosperous among them challenged the center and attempted to capture the parliament and the presidential position. But their struggle was limited by the parliamentary electoral campaign—and its failure led to the subsequent abandonment of all winnings that had been received during the 1990s.

The centralization of the 2000s supports the conclusion that all the decentralization of the 1990s could be explained by the center’s political and economic weakness, rather than the regional elites’ strategic behavior. Both Vladimir Putin’s popularity and the economic growth in the beginning of the 2000s quickly broke up intergovernmental relations into unitary patterns that resembled the practices of territorial governance in the Soviet Union.

Notes

- 1 Hereafter, “national policy” should be understood as “ethnic policy.”
- 2 In the future, in 2014, the Ministry of Internal Affairs would eliminate the federal districts’ agencies everywhere except the North Caucasus district. In private talks experts had noted that the departments often duplicated the other structures’ tasks. At the same time, the need to provide control was, first, not as severe as it had been at the beginning of the 2000s, and, second, was successfully provided for by the regional departments of the Procurator General’s Office.
- 3 In 2014, Vladimir Putin proposed a constitutional amendment that empowered the president to appoint “the Russian Federation’s representatives in the Federation Council.” The total number of such representatives cannot be more than 10 percent of all regional representatives in the council.

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2 Why has regional development in Russia failed?

The political centralization that happened in the 2000s shifted responsibility for well-being and development in the regions to the central level. That period was when the federal government tried to find new models and mechanisms of regional development in Russia.

In March 2007, the federal government declared a plan for building a railway from Kuragino to Kyzyl. It could have connected the Republic of Tyva with the greater part of Russia. Tyva is one of the poorest regions in the country, with tremendous economic and logistic troubles. The only “growth point” that exists in the region is significant reserves of coal. But full-scale development of a prospective “coal project” is limited by the lack of necessary transport infrastructure, mainly of a railway that would connect Kyzyl, the capital of the republic, with the most important transport arteries. As a result, the few companies that are developing the coal project have to utilize the very expensive highway. This decreases the profitability of regional production.

The fact that there is no railway in one of the remote border regions comes as a surprise. How is it possible that, even in the Soviet period, which was less sensitive to assessments of profitability, one of the border regions was not equipped with enough transport infrastructure?

This is explained by Tyva’s geographical particularities, which hinder the implementation of such a project. The current plan for railway construction includes maintaining a line on the territory of permafrost and two mountain ranges. The project needs the creation of 180 bridges, and seven tunnels, one of which will be constructed at a depth of 200 meters. It is obvious that this project demands substantial financial resources and cannot be implemented without significant state support.

Eight years later, the full-scale implementation of the project has yet to begin. The need to build this railway was questioned by federal officials (for instance, Andrey Makarov, the Chair of the State Duma’s Committee on Budget and Taxes said in 2015: “Who has heard the word ‘kyzyl’? Who has heard the word ‘kuragino’? I do not believe that the Kyzyl—Kuragino railway is a project which will develop our economy” (Yakino, 2015)) and experts (Get’man, 2010) many times. The first consortium of the state and private business was ruined by the 2008 economic crisis and corruption scandals. The second has suffered from a

lack of public financing. The only reason the project is still alive is tremendous support from Sergey Shoigu, one of the most authoritative ministers in all Russian governments since 1991, who was born in Tyva. His lobbyism ensures the presence of the project in governmental plans in spite of aforementioned criticism.

In addition to the realization of obviously lobbyist projects, in the 2000s the Russian government launched a set of programs of regional development that had already proved their effectiveness in world practice. One of them was the project of establishing so-called “special economic zones” in some of the Russian regions. The government’s officials hoped that such zones would lay the foundations for new growth points that could accelerate the economic development of both the region and the whole country. Over ten years the number of special economic zones increased from ten to 25. But in 2016, the government declared that all zones would be closed due to their extreme ineffectiveness.

Overall, during the 2000s and 2010s, the government was unable to achieve visible progress in the field of regional policy. This chapter is devoted to the question of “Why?” How can we explain the failure of the federal government’s policy of regional development in Russia?

What does regional policy mean?

It is not that simple to define the content and limitations of a governmental policy. Numerous participants in the policy process are often not interested in the delimitation of boundaries between different policies. Such uncertainty allows them to increase financial support for their activities and decrease responsibility for the results of their work. This fact significantly hinders policy analysis by both practitioners who seek opportunities to improve a policy and scholars who would like to limit the subject of their studies. Regional development is an example of a policy that *a priori* suffers from such ambiguity.

Regional policy (also known as “regional development policy”) deals with the fact that in many countries there is a problem of disparity in the economic and social development of different regions.¹ In particular, that problem was exacerbated during the economic growth of the 1950s and 1960s, which considerably developed industrial regions versus rural territories and regions without industrial growth points. In response, many states launched sets of policy measures aimed at leveling such differences (OECD, 2010). This goal is considered the basis for regional policy. At the instrumental level, the national governments have used subsidies and different forms of state aid for both lagging regions’ governments and firms in order to boost economic activity in such regions. Ideologically, this strategy is justified by the population’s demand for fairness: all citizens of a country have the right to equal living standards and economic opportunities; consequently, the state’s responsibility is to provide these, if the country meets with market failure.

The policy of support for lagging regions continued up to the end of the 1980s and was ultimately admitted as a failure. Fabrizio Barca and his co-authors formulate a diagnosis as follows:

State aid and industrial intervention has wasted resources on declining industries, lame ducks, and big projects [...]. In general, these policies have struggled to cope with the more heterogeneous economic reality emerging from globalization [...], often ending as “strategies of waste.”

(Barca et al., 2012: 137)

As a response, another—so-called “place-based”—approach began to develop in both theory and practice. Its content is based on the assumption that different places possess their own unique sources of development that should be considered by central governments when implementing economic policy measures. The objective of reducing interregional disparities was replaced by that of increasing regional economic competitiveness so as to underpin economic prosperity and social well-being in every region.

The so-called “new paradigm” has not replaced the old one completely. The OECD report (2010) shows that, for developed countries’ governments, the three main problems in the field of regional development are interregional disparities (20 governments), decline of distressed areas (nine governments), and insufficient economic competitiveness (eight governments). At the same time, their regional policies’ objectives are regional economic competitiveness (25 governments), reducing interregional disparities (18 governments), and endogenous, balanced, and sustainable development (seven governments) (OECD, 2010: 15–16). This shows that the two paradigms are co-existing in the real policy process.

In spite of those changes in strategies of regional policy, in the 2010s researchers demonstrated,

there is strong empirical evidence that during the 1990s and early 2000s even though income inequality *between* countries has declined somewhat in recent decades, it had at the same time increased quite markedly *within* countries, with poorer regions lagging further behind the highest income regions.

(Garretsen et al., 2013)

The disparities in regions’ development were not smoothed out but became deeper. At the same time, governments did not manage the task of noticeably improving economic and social conditions in the lagging regions.

Taking these results into account, in the 2000s there appeared ideas of rejecting place-based policies. The most influential supporter of the spatially blind pattern of economic development became the World Bank, which expressed its position in its 2009 development report:

A generation of economic research confirms this: there is no good reason to expect economic growth to spread smoothly across space. The experience of successful developers shows that production becomes more concentrated spatially. The most successful nations also institute policies that make basic living standards more uniform across space.

(World Bank, 2009: 6)

The report proposes thinking of spatial development in terms of three dimensions—density, distance, and division. Density here is about how much is produced in a specific territory; distance refers to the remoteness of centers of production from markets, or inhabited spaces from territories with significant density; finally, division characterizes infrastructural, social, political barriers that hamper economic relations between residents in one or several territories.

This approach stems from the belief that concentration is a normal form of economic development, and governments do not need to oppose this tendency by supporting lagging regions and restraining private companies and labor forces from seeking the most advantageous territories. Hence, the governments' main objective is to stimulate and support the emergence of such points of concentration by using the three i's—institutions, infrastructure, and interventions. The key aspect is that the governments should think of the whole country without special attention to the economic development of specific places. Indeed, the experts insist that social policy can be place based, while economic policy should be place blind. In fact, they propose rejecting regional policy as a specific direction of governmental actions.

This idea has become extremely popular among practitioners in developing countries. It has produced conceptions of establishing agglomerations and special infrastructural projects aimed mainly at decreasing geographic barriers between territories. At the same time, this has not led to decreasing significance of regional policy. In any country, the economic reality is not separated from political processes. That is why in most of them we can observe the complex co-existence of all three approaches to regional development. However, under circumstances of limited financial and other types of resources, governments have to choose a strategy to dominate in their policies.

Thus, regional policy can be defined in two ways. For those who support the "old paradigm," regional policy is a set of governmental measures aimed at decreasing disparity in the economic and social development of regions in a country. However, taking into account the existence of the "new paradigm," we can define regional policy as a set of governmental measures that seek to stimulate regions' economic and social development.

I agree with the authors of the World Bank development report who say that a government uses three types of instruments for achieving their objectives. The most famous group of instruments is *interventions*. This includes targeted budget spending to stimulate economic production in the regions. It can be allocated to lower levels' budgets or private and public companies without the subnational government as an intermediary. The interventions are the main instrument of the old paradigm of regional policy. The new paradigm shifted the regional policy makers' attention to another set of instruments—*infrastructure*. Transportation, communication, energy, and buildings—all are conditions that are able to attract economic participants to invest in launching new projects. Consequently, investment of public money in infrastructural projects makes sense in the long term. Finally, *institutions* are able to create legal norms to attract investors to develop a territory's economy.

I will demonstrate below that most regional policy measures in Russia are realized within the framework of financial intergovernmental relations (in Russia they are called “interbudgetary relations”).

The first component of intergovernmental finance is *expenditure assignments*, a list of specific functions and tasks that a given level’s government is obliged to accomplish. In spite of the growing belief in decentralization that has characterized the modern system of public administration since the middle of the twentieth century, a discussion on how governmental responsibilities should be allocated among governmental levels has been developing in the theory and practice of public finance.

There are two lines of argumentation in favor of significant decentralization. Richard Musgrave claims that any government realizes three major budget functions—providing for the satisfaction of public wants; providing for adjustment in the distribution of income; and contributing to stabilization. While the latter two functions should be implemented by the central government, the first must be decentralized (Musgrave, 1956). In countries with a large territory and/or population, central governments experience difficulties with processing information and providing truly successful policy-making. A more effective way is to establish additional levels of government, subordinated to the central one and taking on a significant volume of responsibilities. In support of this approach, in 1972 Wallace E. Oates formulated the so-called “decentralization theorem” (Oates, 1972, 2008). It states that a decentralized form of decision-making is at least as effective as the centralized one, or even more so. This set of arguments can be called “top-down” justification for decentralization.

The second line of argumentation—the “bottom-up” justification—stems from the so-called “Tiebout model” (Tiebout, 1956). In 1956, Charles M. Tiebout developed a hypothesis suggesting that competitiveness between municipalities for residents leads to a high level of performance. Later, the model’s followers applied the same reasoning to the competition of regions for residents and private investments.

Both Musgrave and Tiebout identify decentralization as an important factor of effective public administration. The question is how such decentralization should be realized in terms of distribution of concrete responsibilities among different tiers. One response is the well-known principle of the subsidiary, which claims that upper tiers should implement functions that cannot be effectively realized by lower tiers. It allows the central agencies to unload their superfluous responsibilities on regional and municipal governments and to optimize the structure of governmental agencies to provide the most appropriate forms of public administration. At the same time, each government can apply the principle while taking its specific circumstances into consideration.

Anvar Shah, a World Bank expert, suggested his universal model of intergovernmental finances for developing countries (Shah, 1994), based exclusively on the economic foundations of good governance. According to this approach, defence, foreign affairs, monetary policy, interregional commerce, immigration, etc. should be designed and implemented exclusively at the central level. There

are other directions of public policy that should be set by the central government, but realized at the lower levels. These include natural resources, inter-regional highway construction, and the like. Environment, education, health care, and social provision are complex policies that should be split between different levels at all stages of the policy cycle. Finally, there are public policies such as police, fire protection, and housing that Shah recommends to be concentrated at the lower level of government.

Shah, Tiebout, and Musgrave discuss the issue of responsibilities in economic terms, without considering the political dimension. However, in real life, expenditure assignment is a field of political struggle between central and regional governments, especially in federal states, where regional communities have a right to express their opinion on the distribution of power. Expenditure assignment is the financial incarnation of the constitutional principles of power distribution.

In decentralized states, keeping political and administrative control over governmental functions is a more important task for politicians than establishing the most effective system of management, and even the best technical proposals are limited by political constraints. Consider the example of school education policy in the United States. The US Constitution leaves school education to be the states' responsibility. In his first term, President Obama declared a need to create national standards in order to improve the quality of education in the United States. But he faced resistance from the governors, who insisted that such intentions from the federal government violated the constitution.

The second element of intergovernmental financial relations is distribution of *revenue assignments*. This practice involves a significant difference in the proportions of central, regional, and local budget revenues even in federal countries. Figure 2.1 contains data on funds received by the governments at different levels

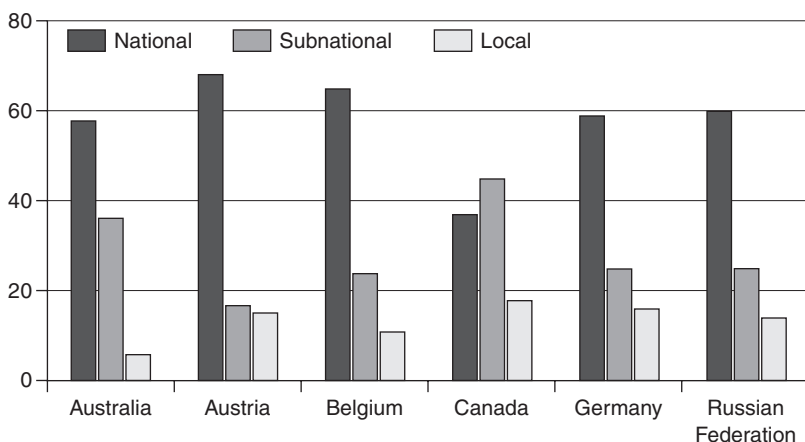


Figure 2.1 Distribution of incomes between different governmental levels in 2011 in several federations.

Source: The author's calculations based on the data of the International Monetary Fund.

from their own sources (taxes and fees that are legally assigned to be collected by the government of a given level).

The existence of individual revenue sources is a politically significant element of intergovernmental finance. The lack of its own funds makes a regional or municipal government more dependent on the higher level, while having sources of such funds supports and strengthens regional or municipal autonomy. Tulia Falleti shows that national governments in Latin American countries often use financial mechanisms to control regional governments, which cannot fulfill their functions appropriately without financial support from the central governments (Falleti, 2010).

Even the most thorough design of intergovernmental relations is all but incapable of ensuring a complete match between revenue and expenditure assignments for all regions of a country. This is limited by the particularities of, first, the country's economy; second, its long-term financial planning; and third, the policy makers' political preferences. As a result, nearly every government faces the question of fiscal imbalance.

The theory of the public sector distinguishes between vertical and horizontal fiscal imbalances. The first is a result of a fiscal system design that does not provide enough revenue assignments to cover all expenditure assignments. The second is a consequence of objective disparities in economic development between subnational units. Often, these two types of imbalance are closely intertwined. Bird et al. (2006: 88–89) show that realization of a vertical balance for the most developed regions invariably results in a vertical imbalance for the least-developed regions. The reason seems to be the structural disparity of regions, rather than the imperfection of intergovernmental financial relations.

There are two main ways of achieving fiscal balance. The first is to provide lower levels' governments with additional revenue sources. I have mentioned the presence of political constraints to using this alternative. Additionally, revenue sources are able to solve the problem of vertical, but not horizontal imbalance. The most widespread instrument for this is intergovernmental transfers—financial flows from the budget of one governmental level to the budget of another.

The central government uses a wide range of *intergovernmental transfers*. Generally, they are divided into two groups—conditional (or tied) and unconditional (untied). It is obvious that the center seeks to increase the volume of conditional grants to the regions, because it is thereby able to influence policy-making at the lower levels—“they link the amount received to a change in behavior, such as spending more on the relevant item” (Bird et al., 2006: 27). Consequently, the center's control over these grants' spending is comparatively simple and effective. Regional and municipal governments prefer to receive unconditional grants, so as to have the opportunity to spend money as they wish and thereby strengthen their autonomy in relations with the central government. The ratio between tied and untied transfers is one more result of the struggle between the center and the regions.

Thus, a policy maker has many options when he or she formulates the country's budgetary policy. The diversity of intergovernmental financial relations is

Table 2.1 Models of intergovernmental financial relations

<i>Components</i>	<i>Fiscal federalism</i>	<i>Unitary fiscal system</i>
Revenue assignments	Decentralized government	Centralized government
Expenditure assignments	Principle of subsidiarity	Concentrated mainly at the national level
Role of intergovernmental transfers	Supporting, regulating	Dominate

analytically grouped into two models. The first one is ubiquitously called *fiscal federalism*, and the other can be termed the *unitary fiscal system*. Table 2.1 contains variations of the three elements of intergovernmental finances for each of the models.

Fiscal federalism means a significantly decentralized system of public finance, where every level of government possesses its own financial resources. In such a system, the constitution or other laws contain a clear list of responsibilities for every governmental tier. Here, intergovernmental transfers perform a supporting role: the center allocates money to lower-level budgets to resolve the problem of horizontal fiscal imbalance.

Within the framework of the unitary fiscal system, the lion's share of all public revenues is concentrated in the central budget. Regional governments, if they exist, are designed so as to implement the central government's policy to ameliorate the problem of information asymmetry. They can be responsible for certain expenditure assignments, which are financed by the central budget through the channels of intergovernmental transfer. It is obvious that in this case financial transfers are intended to manage the vertical imbalance.

The design of intergovernmental finance is no less important an aspect of territorial governance than the classic distinction between federal and unitary states. At minimum, its influence on the ongoing processes of public administration is comparable to building and supporting political relations between governmental tiers. That is why these processes are characterized by intensive political bargaining and the influence of political factors on the results of policy-making. Now let us model a process of policy-making by a government that aims to implement a regional development policy. To do this, we must place the case of regional policy within the frameworks of the models of policy implementation—ideological and opportunistic, as previously discussed.

When applied to the case of regional policy, the ideological model works as follows. Every policy-maker (whether a politician or a bureaucrat) has his or her own ideology concerning the most appropriate way of achieving regional development. Analytically, every set of ideas can be related to the paradigms of regional development—the support for lagging regions, the place-based or place-blind policies. Supporters of these ideologies lobby for their approaches in the early stages of the policy cycle (Brewer, 1974). They build advocacy coalitions

(Sabatier, 1988) or take advantage of favorable circumstances (Kingdon, 2003) to push their policy alternatives to the stage of implementation.

The opportunistic model considers the need to be re-elected and hold the position as long as possible as a politician's main goal. He or she implements a policy that will increase the chances of victory in the next elections (Nordhaus, 1975; Kincaid, 2001). Hence, regional policy in the opportunistic model seeks to ensure that a region's elite and population will be loyal toward the policy-maker and/or the center level in general.

There are at least two political situations that force the government to use regional policy to gain loyalty. The first is the threat of a region's or a territory's secession. The second is a period of national elections when national rulers (the heads of states, or ruling parties) seek electoral support at the subnational level.

There is a wealth of academic literature devoted to the central government's use of intergovernmental finances to decrease the risk of disintegration in the country (Bulanin and Scherbak, 2005; Zakharov, 2003; Treisman, 2001). Studies show that national governments often provide special measures to economically and socially develop potentially secessionist regions. At first blush, this can be considered an attempt to buy the regions' loyalty. Yet such a strategy can decrease the level of the regions' autonomy due to the increase in the regional economies' dependence on national financial interventions.

During electoral campaigns, the center is able to redistribute the regional development policy's funds to receive electoral support in targeted regions. The government takes into consideration the experience of previous elections and tends to divide all regions into "loyal" and "oppositional." A politician interested in maximizing votes in the next elections should decide what sort of regions should be targets of the center's additional support. He or she chooses between two strategies—political co-optation (aimed at appeasing the oppositional regions) and political cronyism (intended to encourage the friendly regions) (DeBardeleben, 2003). At first sight, political co-optation is a more advantageous strategy. Its application is based on the assumption that, in postcommunist regimes, a low level of electoral support results from the electorate's discontent with its well-being. Hence, to increase its popularity, the national government should provide regional communities with additional resources to implement populist measures in social security, create new jobs, etc.

The problem is that repeated use of this strategy leads to negative outcomes. The national government *de facto* rewards regional governments for unsatisfactory governance and the population's displeasure. In this way, the center creates counter-productive incentives for the regional elites, who are inclined to exploit this pattern to take advantage of the center's strategy.

Political cronyism involves establishing a system of rewarding the regional elites for providing loyalty to the center, and punishing oppositional regions. The regional governments have to focus their efforts on achieving the electoral results the center demands. Otherwise, they will suffer from a lack of central financial support.

In the actual process of public administration, both the ideological and the opportunistic models are simultaneously in effect. Due to the limitations of

financial resources, one model dominates over the other during any given period. Our goal is to understand how the Russian regional policy reflects the ideological and political preferences of the ruling group, and what factors contribute to these dynamics.

How does Russia do regional policy?

Over the last two-and-a-half decades, Russian regional policy has undergone significant changes. The so-called command system for planning economic development in the USSR was replaced by a set of complex mechanisms for the development of intergovernmental finances and regional economies. In this section, I will describe the basic phases of the regional policy's development from the very beginning of the 1990s until the present time, and define the role of the political and other factors that influenced the observed dynamics of the federal government's policy. It is not the task of this section to explain the causes of the policy's success or failure, although at times I will demonstrate that some of the goals of the federal policy were successfully achieved while others were not. My intention is to show how and why the Russian government *attempted* to govern territorial diversity in the field of economic and social development. Therefore, success should be understood here in a narrow sense—as adopting an alternative as a policy to be implemented, while a failure is when the alternative does not become a part of public policy.

To limit the number of potential factors, I use John Kingdon's approach (Kingdon, 2003), one of the most influential theoretical instruments for analyzing the three initial phases of policy-making—invention, estimation, and selection. Kingdon's model allows us to focus on changes in the ideas of regional policy proposed and implemented by the federal government, and is not intended to assess the particularities of the implementation of the resulting decisions.

Following Kingdon, I concentrate my analysis on four basic groups of circumstances able to influence the results of policy changes. They are “participants” and three kinds of “processes” (or, as other authors prefer to say, “streams” (Zahariadis and Allen, 1995))—problems, politics, and policy.

The participants are actors—the president, the legislature, other public officials, bureaucrats, political parties, and pressure groups—that can push through or hinder proposed policy alternatives. Usually, it is participants and their interests and strategies that are the focus of researchers' attention, especially in political science. But Kingdon insists that processes, i.e., sets of structural circumstances “by which agenda items and alternatives come into prominence” (Kingdon, 2003: 15), perform an even more important role. The stream of “problems” includes challenges that motivate a government to change the current pattern of policy and seek out possible alternatives. The stream of “politics” points to the influence of electoral politics, the mode of political struggle, and particularities of stable relationships between influential political actors. Finally, the “policy” stream is “a process of gradual accumulation of knowledge and perspectives among the specialists in a given policy area, and the generation of

policy proposals by such specialists” (Kingdon, 2003: 17). According to Kingdon, the influence of each process might be insufficient to realize an alternative, but their combination is able to open a “policy window,” a unique opportunity “for advocates of proposals to push their pet solutions or to push attention to their special problems” (Kingdon, 2003: 165). The concept of the policy window does not assume that one factor is more important than others. Within this model, the implemented policy alternative is a fortunate combination of all these different circumstances.

Despite this fact, I “disintegrate” Kingdon’s model to identify more important conditions for the successful development of policy processes in the field of regional policy. The section concentrates on the individual effects of every stream.

Following this interpretation of the model, four hypotheses can be formulated. In the process of constructing theoretical expectations, I apply Kingdon’s elements to the Russian institutional context to overcome the problem that this model was developed for understanding policy-making in the United States, a democracy with a pluralist system of representation of interests.

The first hypothesis is derived from Kingdon’s “problem stream.” His definition of a “problem” is quite strict. Not every difficulty in societal development can be called a problem. For instance, Kingdon distinguishes between a “problem” and a “condition.” While a problem is assessed by policy-makers as an obstacle to development that must be overcome, a condition is considered an inevitable difficult situation that must be taken into account when governing the country. The government’s opinion here is crucial. Often, a government assesses a situation as a condition even if a society considers it to be a real problem. In this case, non-governmental actors have to make an effort to force the government to pay attention to the situation.

Along with civil society’s and the expert community’s lobby actions, external and internal shocks can be the trigger that places a government’s attention on the situation and on policy alternatives capable of solving the problem. Kingdon identifies three sets of events that make the problem manifest to the government: indicators (received by governmental and non-governmental actors as a result of monitoring the situation within a given policy subsystem), focusing events (“like a crisis or disaster that comes along to call attention to the problem” (Kingdon, 2003: 94–95)), and feedback about the implementation and results of existing programs. All of these are important only if they shock policy-makers and force officials and politicians to change routine practices of administration within a subsystem. Paul Sabatier and his co-authors (Sabatier and Weible, 2007; Weible et al., 2009) distinguish between external and internal shocks. Applied to Russian regional policy, external shocks are events beyond the Russian regional policy subsystem that significantly change social and economic circumstances as well as officials’ views on governmental priorities; internal shocks are evidence of the ineffectiveness of governmental measures within a given policy subsystem.

Hence, considering Kingdon’s suggestion that the existence of governmentally admitted problems is important for opening a policy window and, as a

result, enacting a policy change, the following hypothesis can be formulated: *different types of shocks—both external and internal—make the government change current patterns of regional development policy and find new forms of administration in this field* (H 2.1).

The second set of circumstances identified by Kingdon concerns political possibilities and constraints to enacting a policy change. Kingdon clearly shows that the public mood and ideological preferences of parties that control the decision-making process are important factors in politicians' readiness and ability to realize new policy measures. The significance of these parameters is expected to be lower under an authoritarian political regime. But transformation of authoritarian regimes into competitive and electoral types does not allow us to write off these conditions. Consequently, the second theoretical expectation is that significant changes in regional development policy are more likely if the government possesses support for its proposed measures from both the population and a majority of the parliament. At the same time, the "political stream" can be interpreted more broadly—as the presence or absence of obstacles raised by deep-rooted political cleavages not only in the national parliament and the government but also beyond them. For instance, within the framework of the Russian regional policy subsystem, the structural conflict between the center and the regions is hypothesized to be crucially important. That is why the hypothesis can be formulated as follows: *significant changes in regional development policy are more likely if the government possesses support for its proposed measures from the population, a majority in the parliament and/or other structurally significant political actors* (H 2.2).

The third of Kingdon's processes—the "policy stream"—concentrates on such characteristics of proposed policy alternatives as their technical feasibility and value acceptability, which support or hamper efforts to push the alternatives through the policy process. Indeed, Kingdon supposes that policy-makers always have many alternatives to implement, but the circumstances do not allow them to do so. Appropriate alternatives are characterized by their effectiveness on the one hand, and tolerably high transactional costs on the other.

The research that Vladimir Gel'man and I conducted on policy changes in 2000s Russia (2016) demonstrates that an important factor in the appropriate realization of a proposed policy alternative is the very "technical" characteristic of the time needed for its adoption and implementation. Many authors show that a reform that can be realized in a short-term timeframe has higher chances of being implemented than a reform that consists of several phases of realization and that must be implemented over several years. Additionally, the scale of the transaction costs that a policy-maker has to cover to realize his or her proposal can be a significant feature of a policy alternative.

In the form of a hypothesis these ideas can be presented as follows: *To realize his or her policy alternative, a policy maker should propose decisions with a low level of transaction costs, a short period of adoption and implementation, and the consensus of an expert community about effectiveness of the proposal* (H 2.3).

Finally, the fourth element of Kingdon's model is "participants." The author insists that modern political science exaggerates the role of political actors in political and policy processes and unfairly understates the significance of structural and institutional characteristics. At the same time, the author offers a detailed description of the participants in the policy process in the United States and the resources they possess. This part of Kingdon's book is the most USA centered: it describes the American presidential system, its democratic political regime, and its pluralist model of representation of interests.

Russia is different in all three of these dimensions. It features a presidential-parliamentary model of institutional design (Shugart and Carey, 1992). Gel'man and I (2016) identify the following effects of this design on the particularities of the policy process. First, due to the president's complete control over the appointment of the prime minister, the Russian government's role "is reduced to implementing the tasks posed by the president, and performing routine, daily administrative work in social and economic policy areas" (Gel'man and Starodubtsev, 2016: 101).

Second, the governmental ministers are under double subordination to both the prime minister and the president. Officially, this rule concerns only ministers and the heads of agencies responsible for defense, security, foreign affairs, etc. In reality, the president controls the actions of the whole government and every governmental agency, bypassing the prime minister. This leads to a situation where the government is not a political team, but a technocratic organization with a complex structure. As a result, "policy-making under these conditions turns into a complex and often inefficient series of bargains and ad hoc agreements between several state agencies" (Gel'man and Starodubtsev, 2016: 102).

Finally, the parliament cannot effectively control the governmental officials and the policies they implement. The legislature's two real possibilities for influencing the government are the procedure of approving the candidate for the prime minister's position and the rejection of governmental bills, including drafts of the federal budget. However, these opportunities are limited. The Duma cannot reject the candidate for prime minister more than twice—otherwise, after the third rejection, the president is obliged to dissolve the parliament. The rejection of governmental bills certainly hampers the government's routine, but the Russian parliament has no effective instruments for punishing officials for the realization of a bad policy.

Such an institutional design, combined with the Russian political regime, significantly reduces the number of channels of interest representation. Consequently, interest groups and expert communities influence the decision-making process only when the government or the parliament is ready to involve them in their actions. Under these circumstances, the strategic priority of given reforms for the political leadership becomes a crucial factor in their successful implementation. Decisions important to the president are more likely to be realized than reforms initiated and supported exclusively by governmental officials. In turn, a policy proposal designed and supported by parliamentarians or interest

group representatives is unlikely to be realized without the president's or the government's support.

At the same time, considering the complex and competitive nature of relations within the government, another significant circumstance can be the concentration and cooperation of agents of reforms during policy adoption and implementation. A high concentration of reformers in a single governmental agency, along with deep cooperation among them, supports the development of proposed policy changes. Conversely, the dispersion of responsibility for realization of a reform between several governmental agencies, and competitiveness between the different reform teams, lead to poor results. Thus, the fourth hypothesis states that *the president's engagement in the realization of policy changes and the concentration and collaboration of reformers—both decision-makers and implementers—contribute to the success of the policy changes* (H 2.4).

Methodologically, the analysis is conducted in the tradition of the classic case study. This methodology is the best way to provide a description and analysis of long-term and complex political processes and attempt to identify all the possible factors that influence political outcomes.

Thus, the result of the analysis includes a “thick description” of the Russian government's policy toward regional development, identification of points of significant change in policy ideologies and instruments, and analysis of the influence of the factors discussed above on the relevant processes.

The 1990s: decentralization without development

The history of the development of regional policy in the Russian Federation can be roughly divided into three periods: the 1990s, the 2000s, and the 2010s. Of course, policy did not change every time a new decade came around. The first of these periods began in 1991 (when Russia was still part of the Soviet Union) or 1992 (when the truly sovereign state faced the need to build a new fiscal system), and the period of the 2000s stemmed from the 1998 financial crisis, while it is not possible to determine a starting year for the third period. But overall, dividing the timeline into decades correctly describes the dynamics of regional policy.

Regional policy in Russia began at the moment of the Soviet Union's collapse. The government of the newly independent country had to deal with the legacy of the Soviet system of regional development.

The Soviet Union had declared the principle of social justice to be the ideological basis of its public administration. The Soviet government actively participated in the redistribution of regional incomes and sought to achieve effective placement of industrial objects. This effectiveness was understood in two senses. On the one hand, the decision on a manufacturing site's placement took into account the existing distribution of resources (mainly natural resources) and of other enterprises. On the other hand, the state's interest in social security often prevailed over economic needs. To develop a region, the government was ready to create additional jobs without consideration of the economic effectiveness of such measures.

Intergovernmental finance in the Soviet Union was an outstanding example of the unitary fiscal system. The principle of autonomous budgets at the levels of the Soviet republics and below did not exist. Subnational governments did not have the ability to regulate taxes and control budget revenues. If a regional government felt it was suffering from a lack of finances needed to implement its responsibilities, regional leaders requested additional resources at the union level. Consequently, intergovernmental transfers were crucially important for the Soviet budgetary system. Indeed, they were the main mechanism for decreasing imbalances in the Soviet Union (Trunin and Sinel'nikov, 2001: 5–6).

When the economic situation in the USSR deteriorated, the lack of subnational governments' responsibilities became an immediate problem for the Soviet system of public administration. The government found itself facing sluggishness and inertia from the regional governments, which hampered implementation of anti-crisis measures. As I observed in the previous chapter, economic problems, together with ethnic conflicts in autonomous oblasts and republics and certain Soviet republics' threats to disintegrate the union, forced Gorbachev to delimit the responsibilities of the union, and of the Soviet and autonomous republics (thereby establishing those responsibilities) (Zakon, 1990a, 1990b). Although during that period no types of regions, with the exception of the Soviet and autonomous republics, were subnational units of the federal state, these measures significantly influenced both the development of federal relations and the construction of a new pattern of regional policy.

After the collapse of the Soviet Union, regional development was not a priority for the federal government. The catastrophic economic situation demanded that the executive should solve the immediate problems and use all available tools to support regions in need.

The prime concern of the federal government was the lack of a system of formal institutions in the field of intergovernmental relations. Russia inherited the ambiguous system where all regions possessed many responsibilities, but only republics enjoyed the status of federal subnational units, including the right to make their own decisions. At the same time, not all republics had enough financial resources to fulfill their responsibilities, while there were several non-ethnic regions that were ready to be more responsible and autonomous. The Russian government *de facto* lost its control over the republics. Two of them—Tatarstan and Chechnya—were on the edge of final secession, and many others threatened to follow them. In their turn, economically strong non-ethnic regions declared their claims to equal status with the republics.

In spite of the presence of all these difficulties, the national government was mainly interested in establishing well-functioning mechanisms for administration of regional economic processes and providing federal financial support for those regions that could not manage their economic problems without the center's assistance. That is why the first governmental measures in this field were aimed at non-ethnic regions.

First of all, the center tried to formalize the distribution of responsibilities and launched negotiations with the regions on conditions for a new federal agreement

that could establish common rules for intergovernmental relations in the new country. The agreement was signed in March 1992 (*Federal Agreement*, 1992). It was a concession by the federal center simultaneously to the republics and the non-republics, since the document both formally granted the status of “subnational units” to all subnational units and legalized asymmetry in their responsibilities.

The signing of the Federal Agreement became an important measure that contributed to the establishment of formal institutions for intergovernmental relations. However, that agreement was the last act of consensus between the two main actors of the federal center, the president and the Supreme Council: after that, a full-scale constitutional crisis broke out. During the subsequent struggle, both sides tried to enlist the support of regional elites. This promoted the practices of informal negotiations and bargaining between the regions and either of the opposing sides at the federal level.

When President Yeltsin successfully gained control over the oppositional legislature in autumn 1993, he attempted to decrease the level of the republics’ autonomy. The 1993 Constitution established a symmetrical federation—all types of subnational units possessed an equal volume of responsibilities, and those parts of the Federal Agreement that contradicted the constitution were abolished.

Yet, in reality, the federation remained asymmetrical until the end of the 1990s. In 1994, the first bilateral agreements between the federal and regional governments were signed. Initially, this was the result of informal negotiations between the Kremlin and Tatarstan, which had not participated in the referendum on the federal constitution and, consequently, remained outside the legal and political spaces of the federation. But later this practice extended to many other regions. By the middle of 1998, 38 agreements had been signed. They covered both the republics and the administrative subnational units.

These agreements directly violated the federal constitution. Rabko et al. (2001) reviewed the entire set of documents and found that they all transferred a significant part of federal and shared responsibilities to the subnational governments. Indeed, every document set out a specific pattern of intergovernmental relations between the federation and a subnational unit. Its content completely depended on a region’s ability to lobby for its interests at the federal level.

Since the very beginning of the 1990s, the center had been designing a suitable intergovernmental finance system. In October 1991, a new law was adopted on the foundations of the budgetary system in Russia (Zakon, 1991). It embodied the principles of fiscal federalism: the law asserted the principle of the autonomy of budgets at all governmental levels. Regional budgets should be based on the regions’ own revenue sources and the right to use financial resources at the regional and local governments’ discretion. However, it took three years to compose a list of all revenue sources and distribute them between the governmental tiers as well as to establish common rules for the budgetary processes in the regions (Zakon, 1993).

Even so, the system of federal financial support remained far from perfect. To assist the regions with managing their current public administration and iron out

differences in regional development, the federal government used a system of intergovernmental grants—subsidies and subventions (Zakon, 1992). The methods for distributing these grants were extremely politicized. They were known to be allocated individually after bargaining between regional lobbyists and the country's leadership (Filippov and Shvetsova, 1999; Kuznetsova, 2005). Additionally, some economically prosperous regions—Tatarstan, Bashkortostan, and Sakha—refused to transfer tax revenues collected in their territories to the federal budget. This significantly decreased the redistributive power of the federal government.

In 1994, the government implemented a full-scale reform of intergovernmental finances. The reform aimed at two important goals: to establish an effective system able to reduce disparities in the regions' development, and to speed up reforms in the fiscal sphere at all levels of government. The president, and the parliament elected after the autumn of 1993, which was therefore generally loyal, gave their support to the adoption of the following three measures (Biudzhetyi, 2001: 9). First, the federal Fund for Financial Assistance to the Regions (FFPR, *Fond Finansovoi Podderzhki Regionov*) was established within the structure of the federal budget. It was to be the only channel for providing federal grants for all subnational units. The Ministry of Finance designed a special methodology that allowed it to calculate a region's need for federal financial support, factoring in its revenue possibilities and expenditure assignments. Second, the government distributed sources of tax revenues between the governmental tiers. Many taxes were divided into federal, regional, and municipal parts. That is, specific proportions of those taxes were assigned to the budgets of the corresponding levels of government. Moreover, the center allowed the regions to set the size of the regional share of the profit taxes by themselves.

But the new system suffered from many shortcomings (Kuznetsova, 2005). The methodology suggested by the government was far from perfect. It included indicators that demanded annual negotiations between the federal center and regional governments. Additionally, the methodology was obligatory only for Ministry of Finance officials, while the State Duma's deputies could change the results of the bureaucrats' calculations as they wished. Furthermore, the bilateral agreements interfered with the implementation of the described standards of tax revenue allocation, since the agreements included numerous exceptions to the rules and superseded federal laws.

The finishing touch was added to this contradictory picture by the federal parliament's practice of imposing unfunded mandates on the regional and local governments. The cause was purely political. In 1995, the Communist Party won a majority in the State Duma and commenced a struggle against the federal government's austerity measures. Since the Communists' strategy mainly concerned social security, most of the Duma's proposals generated additional expenditure assignments for the regional governments.

Moreover, the federal government made an attempt to establish a new mechanism of regional development—"free economic zones"—in certain regions. Such zones had first emerged in the Soviet Union, but between 1990 and 1996

several dozen new zones were created. The residents of such zones enjoyed better customs duties and tax benefits and, as a result, it soon became very popular among Russian businessmen to register their companies within the territory of the free economic zones.

The problem was that the government had not determined criteria for selecting the territories most suitable for placement of these zones. As a result, the decisions on establishing them were made based on intergovernmental bargaining. Additionally, the federal legislator had not defined requirements for residency. In fact, in most of the zones, new companies and jobs were not created. Businessmen registered their firms within the territory of a zone to receive a legal opportunity to reduce their tax burden. In exchange, regional officials contented themselves with obtaining additional tax revenues and bribes. Consequently, free economic zones did not lead to the resolution of existing problems of regional development. Moreover, their effect was negative for economic development in Russia overall due to their broadening the grey area of economy and state-business relations. This was why in 1996 almost all these zones were closed. Furthermore, any proposals to establish new special zones faced fierce opposition from the federal government.

Thus, since 1991, intergovernmental finance and regional policy were characterized by the inconsistent behavior of the federal government. The Soviet Union's collapse was accompanied by both the destruction of the institutional environment that regulated intergovernmental finance in the union and the urgent need to implement an equalizing policy. The lack of formal institutions gave rise to the domination of informal ones. The planned economy and established channels of regional representation were replaced by ad hoc bargaining, with the center's objective being to put out political or economic fires in the Russian regions. All attempts by the government to formalize intergovernmental finance and regional policy were faced with the differences in the interests of the president and the executive. While the latter tried to form unified "rules of the game," the former demonstrated his readiness to bargain to ensure the stability of the political situation in Russia.

The 2000s: centralized development

The situation changed in 1998. To correct the main weaknesses of intergovernmental finance, the federal government adopted the Conception of Reforming Intergovernmental Finance in the Russian Federation in 1999–2001 (*Postanovlenie*, 1998). The document was designed as part of a series of reform ideas proposed by the Russian government soon after Boris Yeltsin's victory in 1996. The governmental Economic Reforms Commission, headed by Anatoly Chubais, took advantage of Yeltsin's victory to continue the neoliberal reforms, especially in the field of social security and economic development.

The Conception formulated new objectives for intergovernmental finance. Along with the intention of erasing the existing disparities, the document included such new paradigmatic goals as "creating conditions for increasing

effectiveness of social and economic development of the regions” and “establishing mechanisms of selective investment-based support of the regions.” The document stated that the Russian budget system should be based on the clear and unified distribution of expenditure assignment among the governmental tiers and suggested a draft version of such a distribution. Finally, together with FFPR, the Fund for Regional Development (FRD) and the Fund for Development of Regional Finances (FDRF) were established. The first fund’s responsibility corresponded with the new paradigm’s ideology: it was aimed at creating “social infrastructure to provide guarantees established by the federal government.” The FDRF collected funds to assist subnational governments in reforming the budget policy and the fiscal system in the regions.

Ideologically, the Conception demonstrated a shift in regional policy from an old paradigm to a new one. The center was ready to allocate its financial support to the subnational budgets to strengthen their potential for development, instead of the mechanically redistributing funds between the poorest regions in the country. At the same time, the government declared its readiness to extend the formalization of federal financial support instead of the established practices of informal negotiation.

The implementation of such a strategy should have faced significant resistance from the governments of both the politically influential and the economically poorest regions, as well as the Communist opposition in the State Duma, as had happened with many other reforms from that package (Dekalchuk, 2017; Grigoriev, 2017; Starodubtsev, 2017). However, in August 1998, Russia experienced a dramatic financial crisis that emptied the Russian budget.

Within this extremely unfavorable financial and economic situation, Yevgeny Primakov, a prime minister appointed by the president due to unprecedented pressure from the State Duma, launched the implementation of a centralized and tightened regional policy. He drastically cut the volume of budget debts the federation allowed subnational governments. Then, taking advantage of large-scale support in the Russian parliament, Primakov’s team was able to push a draft of the new budget, which was designed after the pattern of the 1998 Conception, through the State Duma: the parliament’s deputies refrained from changing the government’s proposal, and the cabinet could form a budget draft following the rationale of austerity.

The 1998 financial crisis’ influence on the particularities of intergovernmental finance was profoundly significant. It opened the policy window for implementation of reforms in the field of intergovernmental finance. Unlike most of the reforms of the second half of the 1990s, which were blocked by the permanent political conflicts of the executive and the legislature as well as by resistance within the bureaucracy, these changes in budget policy and intergovernmental finance happened due to the scale and depth of the financial and economic problems at the very end of the 1990s. At the same time, the economic crisis triggered a chain of governmental crises that led to the formation of Primakov’s government, completely supported by the Duma. The new prime minister attained consensus from all significant actors at the federal level.

In 1999, a new State Duma was elected. The pro-Putin Yedinstvo and its allies gained a majority in the State Duma in the 1999 parliamentary election. It must be said that this parliament was quite fragmented, and all left-wing factions became the opposition (Remington, 2006).

In 2000, a new Budget Code was introduced. It significantly tightened the requirements for preparing, adopting, and implementing regional and local budgets and improved their transparency and effectiveness. The code declared the need for clear listing of expenditure assignments at every governmental level, so as to correctly determine every government's resource needs and perfect the system of intergovernmental transfers. Additionally, the reformers proposed a transition from the so-called German system of tax allocation to the American system. This meant that, instead of splitting the income from each tax between different governmental levels' budgets, the new system assigned each tax to one specific level. However, the measure seemed very radical to most of the participants in the budget process, and it was not realized.

This reform became part of a program of radical policy changes initiated by Vladimir Putin soon after his ascension to the presidency. The financial reforms were achieved to a greater degree than any of the rest. The reasons for this success have been thoroughly scrutinized. First, the reformer team consisted of officials who were very close to the newly elected president. Consequently, they could enjoy his support at all stages of the reforms' realization. Second, the new taxes as well as the new rules for the budget process were set by the sole efforts of the federal Ministry of Finance. Other parts of the reforms, which demanded that other agencies at different levels of government should be included in the process of implementation (for instance, the introduction of the performance-based budgeting institutions) ended up suffering numerous disruptions. It was impossible to coordinate the actions of a bureaucracy disintegrated both horizontally and vertically. Finally, a critically important factor was the federal center's ability to reduce the scale of intergovernmental bargaining on financial issues. This did not mean that the government had achieved complete formalization of intergovernmental finances. Nevertheless, this reform was implemented without significant resistance from regional leaders.

It is difficult to overstate the positive effect of the reform. The Budget Code for the first time created a solid and consistent system of intergovernmental finance, which limited all policy-makers through the frameworks of the formal institutions. At the same time, the new rules allowed the center to reduce regions' revenues from the consolidated budget. In 1992–1999, the average share of the regional budget revenues was 50.9 percent (from 39.7 percent in 1992 to 56 percent in 1998), but in 2003–2011 that indicator was only 37.9 percent (Figure 2.2).

The financial centralization was accompanied by unprecedented activity aimed at allocating the governmental agencies' responsibilities across three levels (Kozak's reform). After the 1992 Federal Agreement, this was the center's first attempt to negotiate with the regions over the level of their administrative autonomy. The so-called "Kozak's Commission" included both representatives of the federal government and of the subnational units.

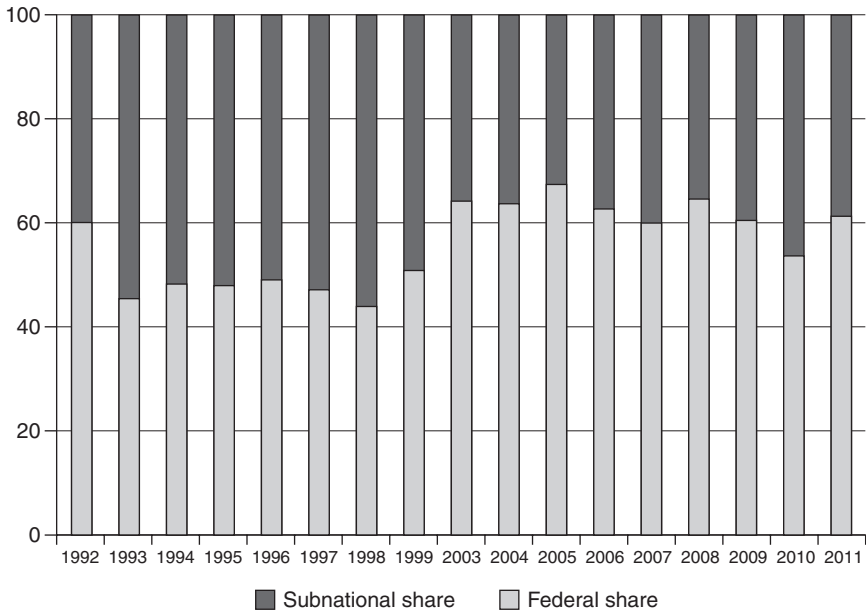


Figure 2.2 Federal and regional shares of budgetary incomes in Russia in 1992–1999 and 2003–2011.

Source: Rodin, 2006: 166; author's calculations based on the data of the Federal Treasury (www.roskozna.ru/).

In spite of this, both regional leaders and the deputies of the State Duma criticized the results of the commission's work. The main point of criticism was the commission's intention of dividing the reform into two phases. In the first phase, the commission would revise all responsibilities so as to distribute them among the governmental tiers, and in the second phase it would find enough financial resources for each of the levels to cover its expenditure assignments. The governors were concerned by the possibility of receiving additional responsibilities without gaining the appropriate financial resources. There were also many critical remarks about the assignment of particular responsibilities to federal, regional, or local governments. The governors were dissatisfied with the loss of responsibilities that had belonged to the regions during the 1990s, and the State Duma's parliamentarians were worried about the significant decentralization of the social sphere of public administration.

Although lively parliamentary debates took place, the law initiated by Kozak was adopted. In fact, the reformers proposed to integrate these norms into the law devoted to general principles of arrangement of regional executives and legislatures in Russia. The history of this law is very interesting: it was adopted only in 1999 as a successful attempt by the center to unify the governmental

systems in the regions. Before that, the subnational units had established different constitutional models depending on the structures of their internal political processes (Kononenko, 2003).

Of course, the regional elites actively defended their institutional choices. The center even had to appeal to the Constitutional Court to force certain regions to amend regional constitutions that included stipulations about appointing their governors by the legislature. This was an important symbolic act that meant that the distribution of responsibilities was a decision by the federal center that could be revised at the center's discretion. Afterwards, the center frequently revised this part of the law. Moreover, the governors' main fears were confirmed: the ongoing fiscal centralization led to the domination of federal transfers as the means of financing most of the new responsibilities.

This combination of administrative decentralization and fiscal centralization achieved the absolute dependency of the regional governments on the central one. Given the gradual reduction of political autonomy the president had been implementing since 2000, by 2005 the center had established a *de facto* unitary state with a very decentralized system of top-down government. I will demonstrate this model's effects in detail in Chapter 3.

The next key question is what motivation inspired Vladimir Putin and his colleagues in the process of this strategy's realization. Many studies of Putin's reforms at the beginning of his presidency—both academic and non-academic—demonstrate that different kinds of reform were implemented by different teams of officials. All financial policy in the 2000s was controlled by Alexei Kudrin, a proponent of austerity measures. Administrative decentralization became the domain of Dmitry Kozak (the head of Kozak's Commission, mentioned earlier). Finally, the political aspect of intergovernmental relations, including gubernatorial elections and their cancelation, was coordinated by Vladislav Surkov, the first deputy head of the Presidential Administration and the architect of competitive authoritarianism in Russia. Thus, these three directions of intergovernmental relations developed separately and had their individual rationales. This situation became additional evidence that there was no unified ideology in Russian intergovernmental relations.

Another important change in regional policy was the diversification of channels for supporting regional economies.

First, in 2001, two new support funds were established for the regions: the Fund for Compensations and the Fund for Co-financing Social Expenditures. Both of them were aimed to offset the regional and local expenditures that were the result of federal decisions within the framework of social security policy. In ideal form, using funds with a narrow scope of functional responsibility instead of a common pool of financial transfers would facilitate a more transparent pattern of transfer distribution.

Second, the federal government increased the number of federal programs aimed at social and economic development in the regions. Before 1998, two programs had existed. One of them, in place since 1993, supported the Kuril Islands in Sakhalin Oblast, and another, in place since 1995, provided assistance to the Republic of

Sakha (Yakutia). By comparison, in 1998, the federal budget financed 28 social and economic development programs for the regions. Some of these covered an entire region, while others concerned specific towns (for instance, in 1998–1999, the program of development of Ivangorod in Leningrad Oblast) or several regions simultaneously (for example, the South of Russia program in 2008–2013).

But not all regions received this kind of federal support. There was no common ideology that could describe the role of the programs in the strategic development of territorial governance, nor is there even now. Lagging regions, prosperous and politically influential regions (the most prominent examples were the same as before—Tatarstan in 2001–2006 and Bashkortostan in 2003–2007), and regions important to the Kremlin from the perspective of national security (Kaliningrad and Sakhalin Oblasts and Chechnya) all benefited from special programs during the 2000s and 2010s.

While in the 1990s the dozens of regionally oriented programs were supported by the center, in the 2000s and 2010s not more than ten programs have been financed (Figure 2.3). The improvement in the social and economic situation in the regions, along with the decrease in the governors' political influence, led to the government's gradual shift from supporting the regions to the development of certain areas of public administration according to a spatially blind strategy. The regionally based programs continued to apply only in strategically important cases (for instance, the reconstruction of Sochi to hold the 2014 Olympic Games, the programs for support of the Far East and Crimea, etc.).

Third, in 2005, another mechanism was utilized to support the regions—special economic zones (OEZ, *osobyie ekonomicheskie zony*) (Zakon, 2005). Supporters of this mechanism suggested bringing back the zones according to the practice of the federal government at the beginning of the 2000s, but the Ministry of Finance successfully cited the bad experiences of the 1990s to block

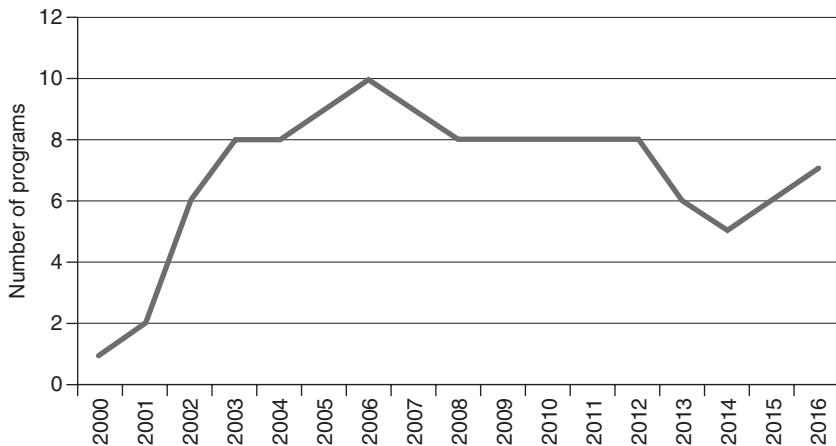


Figure 2.3 The number of federal programs.

Source: Federal Programs of Russia (<http://fcp.economy.gov.ru/>).

these initiatives. Now, German Gref, the minister for economic development and the main lobbyist for the introduction of the O EZ, was able to persuade Vladimir Putin and overcome the opponents' resistance. The policy-makers took past experience into account: the new law included tough requirements for both the regional governments and the companies seeking to participate in the O EZ.

Initially, the reformers intended to establish two types of zones—industrial and technology developmental zones. The new paradigm of regional policy was at the core of the O EZs. The industrial zones were to be placed in lagging regions, while the zones of technological development were designed to support existing technological centers, including Novosibirsk, Tomsk, and Moscow (Fedotova, 2005). But in 2006, the government announced the creation of tourist and recreational zones, and, in 2007, port zones.

Fourth, in 2006, the government established the Investment Fund of the Russian Federation, with the declared goal of co-financing large investment projects in the sphere of infrastructure development. Public money complemented the investments of private companies, which would invest at least 25 percent of the common project costs. Initially, the Investment Fund was designed as a spatially blinded mechanism, but in 2007 Dmitry Kozak, at that point the minister for regional development, stated that these funds should be allocated to the development of regional projects.

Thus, the 2000s featured the establishment and growth of numerous mechanisms of development in addition to the mechanisms of financial support. Initiated by the reform-driven Ministry of Economic Development and Trade headed by German Gref, the new measures were predominantly spatially blinded: the regions and municipalities had to compete for additional federal resources, and the federal government—at the ideological level—took the expected economic effects of these investments on the whole country into consideration, not merely those affecting specific territories. The rapid shift from the old paradigm of regional policy, which had been accompanied by extremely high politicization of decision-making, to the technocratic distribution of resources without special attention to territorial interests needs a good explanation.

The 2000s, or at least their first half, are a good case for illustrating the possibilities associated with policy windows. The long period of economic adversity in the 1990s gave rise to a call for strong government from the population and for a new wave of reforms from the elites. The Communist opposition in the parliament was gradually losing its influence over the political and policy processes. The governors had demonstrated their readiness to participate in policy-making within the limits established by the center. The president enjoyed unprecedented popular support. Under these conditions, any reform program declared by the president's team would have high odds of implementation. This is why I believe that one must not underestimate the role of "participants" and their ideologies in seeking to understand why (and not only how) specific policy measures are realized.

By 2005, the government implemented many centralist and spatially blinded measures in the economic and financial spheres. Political centralization and the elimination of effective channels for representation of regional interests provided

further opportunities to do so, or—more correctly—did not create high enough levels of resistance to hamper these policies.

The Ministry of Regional Development had been established at the end of 2004. This measure can be assessed from multiple perspectives. On the one hand, both the regions and the federal government needed to have a structure that would coordinate the policy actions of federal agencies with the interests of regional development. On the other hand, this decision symbolically meant that subnational units became objects of the center's territorial governance, rather than partners of the federal government.

The new ministry, headed by Vladimir Yakovlev, former governor of St Petersburg, had to delimit the sphere of its responsibilities relative to other governmental structures, including the powerful Ministries of Finance and Economic Development, which had previously been jointly in charge of regional policy. The ministry developed a document titled *The Conception of the Strategy for Socio-economic Development of the Regions in the Russian Federation*, which declared a need to change the principles of the federal policy of regional development.

Objecting to support for lagging regions and acknowledging the importance of regional development, the strategy called for investment in regions with the potential for economic development (*tochki rosta*, “focal points of growth”). The reformers divided the country into “clusters,” sets of regions that included “drivers of growth” (*lokomotivy rosta*), “basic” (*opornye*), and “depressed” or “lagging” (*depressivnye, problemnye*) regions. All were to contribute their resources to the development of the whole cluster. At the same time, the federal government would transform its tax and budget policies to decrease funding for lagging regions in favor of providing infrastructural investments and supporting interregional projects implemented by the driver and basic regions.

Implementation of this strategy would mean the need to realize revolutionary changes in regional, economic, and financial policies. However, surprisingly, it did not provoke any public or expert discussion. The *Conception* was discussed within the government, but the Ministry of Regional Development did not have enough resources to commence its implementation.

In 2007, Vladimir Yakovlev was replaced by Dmitry Kozak, a figure capable of pushing the reform through despite bureaucratic and political constraints. Kozak strengthened the ministry. He was able to gain the right to control the Investment Fund and the regionally oriented federal programs; additionally, housing policy became a responsibility of the ministry. Moreover, the new minister insisted that his team should participate in the distribution of intergovernmental transfers.

However, contrary to expectations, these changes in the status of the ministry did not lead to progress in the realization of the regional development policy reform. At the very beginning of his ministerial term, Kozak rejected the idea of radical reforms in this field and concentrated on development of investment programs, without radically revising the principles of the policy. A year later, Kozak became a deputy prime minister in charge of arranging the 2014 Olympic Games in Sochi. The next four ministers—Viktor Basargin (2008–2012), Vladimir

Tokarev (2012), Oleg Govorun (2012), and Igor Sliuniaev (2012–2014)—did not possess similar administrative and political resources.

In 2007, still headed by Kozak, the ministry announced a project of development of the urban agglomerations, i.e., collections of cities located relatively close to each other and united by common infrastructure as a single economic and social entity. Unlike the idea of territorial clusters, the project became very popular among the leaders of economically successful regions and among federal bureaucrats. After long negotiations within the government, which took almost seven years, the ministry was able to select the most promising candidates to invest in for the purpose of developing the agglomerations, but in 2014 it was suddenly dissolved, and its responsibilities and officials were distributed between other federal ministries and agencies—the Ministry of Economic Development, the Ministry of Finance, the Ministry of Justice, the Ministry of Culture, etc. Now it is the Ministry of Economic Development that is realizing the agglomeration project, which continues to be at the preparatory stage of its implementation.

The ministry's proposal for territorial cluster reform appeared in 2005, during the period when the government was enjoying the most favorable economic and financial circumstances. The state budget had a huge surplus and ministers were ready to propose many projects to spend that money. The Ministry of Regional Development was an exception, because its team proposed changing the existing institutional pattern of regional policy instead of demanding that the government should increase its spending on regional programs. At the same time, there were no shocks that might force the government to urgently change the situation in the field. Due to the general economic situation, regional budget revenues were on the rise. The increasing gap in development between the strongest and weakest regions was considered a *condition*, but not a *problem*. In response, the government strengthened the interventionist element of regional policy, including increasing the volume of intergovernmental transfers aimed at achieving vertical fiscal balance.

Another possible explanation is actor centered. I noted before that an important condition for a reform's success was the support of Vladimir Putin. His political will—explicit or implicit—is able to push through a reform even in the face of political and bureaucratic resistance. The Ministry of Regional Development in 2004–2007 did not have such support. Vladimir Yakovlev, the first minister of regional development, had once challenged Anatoly Sobchak, then governor of St Petersburg. At the time, Putin had been acting as vice-governor of St Petersburg and chief of Sobchak's electoral campaign. Appointed to the federal government, Yakovlev did not become a member of the informal reform team consisting of German Gref, Alexei Kudrin, and other members of the government. The Ministry of Regional Development's proposal sought to change the financial and economic foundations of regional development, thereby interfering with policies implemented by more administratively strong governmental actors. Under those circumstances, most of the participants in the policy process understood that the reform project was an attempt by an administratively weak agency to attract the attention of the veto actor in order to gain additional resources.

Another case is the project of urban agglomerations that began its development under the supervision of Dmitry Kozak. Kozak is considered to be the governmental official closest to the president, usually responsible for projects important to Vladimir Putin. He should have been able to coordinate all the bureaucratic interests and launch the project in a short space of time. Knowing this, everyone capable of being involved actively participated in the discussion of the proposed project.

The project's rapid realization was blocked by two circumstances. First, in 2008 Kozak was transferred to a more important presidential project, the 2014 Olympic Games in Sochi. After that, the ministry suffered from a chain of new ministers who could not have the same level of lobbying potential as Kozak. Second, in 2008, the financial crisis broke out and drastically depleted the federal budget and most of the regional budgets. As a result, the government froze all long-term investment projects, except the most important ones such as the reconstruction of Sochi for the Olympic Games. As the economic situation began to stabilize, the Ministry of Regional Development and—after that institution was dissolved—the Ministry of Economic Development continued the step-by-step realization of the program.

The 2000s, the time of the most intensive reforms in many spheres of public administration, became a period of absence of structural reforms in regional development policy. The explanation for this was the paradoxical lack of interest from the regional governments in forming a coherent and consistent system of regional development. The territorial dimension of the political and policy processes was definitely an object of focus for the federal actors, but each one sought to satisfy the federal center's interests in different spheres of public policy. At the same time, the regional actors were deprived of the ability to express and protect their territorial interests themselves. Under those circumstances, regional policy was doomed to be a policy of secondary importance that could not seize the opportunity even when all policy windows were open.

The 2010s: fake decentralization and territorially based development

The 2008 economic crisis deserves to be further analyzed from the perspective of its effects on regional policy. Due to the global scale of that crisis, the richest regions suffered the most, since they were integrated into the global financial and economic processes more than the others. It is known that banking and export-oriented oil and gas production, as well as metallurgy, were the main victims of the crisis (Starodubtsev, 2009). As a result, in the autumn of 2008, several regions where these industries dominated—the Vologda, Lipetsk, Chelyabinsk, and Tyumen oblasts, the Yamalo-Nenets autonomous district, the Republic of Komi, and even Moscow and St Petersburg—spoke of a need for federal financial support. In these regions, the global crisis led to decreasing regional tax revenues, an increasing unemployment rate, and a gradual decline of quality of life.

The economically weakest regions felt the crisis less. While all developed regions saw a decline in industrial growth by the end of 2008 (Table 2.2), the Republic of Dagestan had this indicator at the +52.2% level and Kabardino-Balkar

Table 2.2 Decline in industrial production in the regions of Russia in 2008–2009

<i>Region</i>	<i>The decline in industrial production in November 2008 (compared with November 2007, %)</i>	<i>Decline (–)/growth (+) of industrial production in July 2009 (compared with July 2008, %)</i>
Vologda Oblast	–43.8	–23.4
Oryol Oblast	–37.3	–45.3
Chelyabinsk Oblast	–34.9	–13.4
Republic of Tyva	–32.7	–21.6
Ryazan' Oblast	–29.5	–11.1
Lipetsk Oblast	–27.9	–17.3
Ul'yanovsk Oblast	–27.8	–37.5
Kurgan Oblast	–24.8	–24.9
Republic of Buryatia	–24.7	–17.5
Kemerovo Oblast	–22.8	–4.3
Republic of Altai	–22.7	–12.0
Chuvash Republic	–22.7	–37.8
Tambov Oblast	–21.7	–5.0
Smolensk Oblast	–20.9	–17.9
Kursk Oblast	–20.4	–3.6
Tula Oblast	–19.7	–13.4
Moscow	–19.5	–29.3
Perm Krai	–18.6	–8.0
Kostroma Oblast	–18.5	–16.4
Kirov Oblast	–18.3	–18.8
Murmansk Oblast	–18.3	–10.0
Yaroslavl' Oblast	–18.1	–25.3
Altai Krai	–18.0	–10.3
Ivanovo Oblast	–17.9	–24.1
Bryansk Oblast	–16.3	–20.7
Nizhnii Novgorod Oblast	–16.2	–21.7
Khabarovsk Oblast	–15.9	–21.9
Republic of Mordovia	–15.5	–19.6
Vladimir Oblast	–14.6	–22.7
Volgograd Oblast	–14.1	–17.0
Rostov Oblast	–14.1	–23.8
Omsk Oblast	–13.5	–10.8
Novgorod Oblast	–12.9	–25.4
Chukotka Autonomous District	–12.5	–17.0
Sakhalin Oblast	–11.2	+53.9
Tver' Oblast	–11.0	–13.7
Stavropol' Krai	–10.4	+7.4
Belgorod Oblast	–10.1	+3.9
Archangel'sk Oblast	–9.9	+3.6
Orenburg Oblast	–9.9	–4.1
Udmurt Republic	–9.5	–5.4
Krasnodar Krai	–9.3	–10.4
Republic of Ingushetia	–9.1	–3.9
Magadan Oblast	–8.8	+2.9
Irkutsk Oblast	–8.5	–13.7

Table 2.2 Continued

<i>Region</i>	<i>The decline in industrial production in November 2008 (compared with November 2007, %)</i>	<i>Decline (-)/growth (+) of industrial production in July 2009 (compared with July 2008, %)</i>
Republic of Mari El	-8.0	-0.5
Yamalo-Nenets Autonomous Area	-7.1	-10.6
Chechen Republic	-7.1	-20.9
Pskov Oblast	-6.5	-5.6
Karachay-Cherkess Republic	-6.3	+0.1
Tomsk Oblast	-5.7	-2.2
Samara Oblast	-5.6	-27.9
Zabaikal'sky Krai	-5.4	+14.6
Moscow Oblast	-4.5	-16.1
Republic of Adygeya	-4.2	-2.8
Republic of Komi	-4.0	-2.8
Voronezh Oblast	-3.9	+3.9
Kaliningrad Oblast	-3.5	-9.6
Saratov Oblast	-3.1	-7.4
Republic of Karelia	-2.6	-9.4
Republic of Bashkortostan	-1.9	-6.9
Republic of Khakasia	-1.8	+9.7
Tyumen' Oblast	-1.6	-2.3
Astrakhan' Oblast	-1.5	-32.1
Primorsky Krai	-1.1	+21.2
Novosibirsk Oblast	-1.0	-15.4
Republic of Tatarstan	-0.9	-9.4
St Petersburg	-0.7	-40.0
Sverdlovsk Oblast	-0.7	-22.8
Krasnoyarsk Krai	-0.3	-9.5
Penza Oblast	0	-12.0

Source: Federal Service of State Statistics (www.gks.ru).

Republic had it at +34.1%. The small sizes of the regional economies, their exclusion from world markets, and their dependence on federal finances ensured a normal economic situation in the lagging regions.

The federal government used its resources, accumulated during the previous years of favorable economic conditions, to support this new group of regions in need. Financial assistance was allocated via two channels: distribution of inter-governmental transfers and credit to the largest enterprises and companies through banks subordinated to the government. The latter was also aimed at supporting the regional social sphere, since because of the low level of economic diversification in the regions, a decrease in such companies' production led to significant social problems.

A good illustration is Vologda oblast, which is a classic case of an economically successful subnational unit. However, its main problem during the crisis was

that its social and economic prosperity had been based on the existence of the large metallurgic company Severstal, which provided 40 percent of tax revenues to the regional budget. The role of Severstal was not limited to tax flows and jobs. In accordance with Soviet traditions and Putin's principle of "the social responsibility of the Russian businesses" (Kuznetsov and Kuznetsova, 2003), Severstal supported (and continues to support) many social projects in the region.

However, in October 2008, due to the fall of prices in the world steel market, its sales declined. Severstal was forced to cut its production plans by a quarter. The local media reported that by the end of 2008 employment services in Cherepovets, the economic center of the region, had received notifications that the company was going to fire 7000 people, including 5600 metallurgists (Starodubtsev, 2009).

The case of Cherepovets is important for understanding the situation that had arisen in most of the so-called monotowns. According to the Institute for Regional Policy's assessment, more than 20 percent of the Russian population were living in monotowns during the late 2000s, and 40 percent of the Russian GDP was produced by enterprises in such towns. Before the crisis, local enterprises had been spending 10–15 percent of their profits on implementing social programs in towns and regions (Bel'chenko, 2009). However, as Cherepovets's case demonstrates, during a crisis these companies could not even preserve a stable number of jobs. As a result, the federal government had to manage more than 500 potential social catastrophes in such territories.

The crisis interrupted the attempts to design new approaches to regional development policy. As in the 1990s, the policy maintained an orientation toward managing current urgent problems and addressing the task of equalizing, but not of developing. Evidence of this reversion came in the form of the change of rules for the Investment Fund's distribution. Initially, the fund had been established for development of projects of national significance. But after 2009, some funding went to regional investment projects of less significance and scale than the national projects. At the same time, the previous periods' achievements—new mechanisms of regional development, formalization of the procedure for selecting the regions in greatest need, and federal political control over the regional leaders—allowed the federal government to avoid the problems of the 1990s, including unrestrained politicization of the federal regional policy.

The crisis strengthened financial dependence of the regional governments and regional economies on the federal government's support. To compare, in 2000, the share of intergovernmental transfers in the federal budget's expenditures was nearly 10 percent. This was less than the shares belonging to such spheres of the federal government's work as national defense, managing the external national debt, and law enforcement and public security. In 2003, intergovernmental transfers took first place in this rating of public expenditures. In 2009, more than 17 percent of all federal spending was allocated to supporting the regions (Figure 2.4). In further, the transfers included more than 100 subsidies, in addition to many subventions that were transferred to the regional budgets to compensate



Figure 2.4 Share of intergovernmental transfers in the federal budget's expenditures.

Source: Author's and Andrey Yushkov's (Leontief Centre) calculations based on data from the Russian Federation's Federal Treasury (www.roskozna.ru).

regional governments for implementing federal responsibilities (Zubarevich, 2011). In this way, the regions became enslaved by federal money and the government's control over how it was spent.

In spring 2011, Dmitry Medvedev, Russian President from 2008 to 2012, declared the need to decentralize the system of public administration (Medvedev, 2011). This proposal was in line with Medvedev's project of modernization in Russia. Throughout the whole period of his governance, Medvedev proclaimed that market-oriented policy changes needed to be realized in Russia (Malle, 2013). Understood in the "narrow sense" (Gel'man, 2017), Medvedev's modernization was aimed at achieving stable economic growth and development by strengthening market mechanisms and diversifying the economy. Such modernization did not touch on questions of democratization that could have shaken the foundations of the current political system. This infected the design of Medvedev's decentralization.

To begin with, Medvedev established two working groups. The first, headed by Dmitry Kozak, was responsible for new revisions of federal and regional responsibilities. The second group, headed by Alexander Khloponin, former governor of Krasnoyarsk Krai, now the president's plenipotentiary representative in the North Caucasian federal district and deputy prime minister of the Russian government, was to develop a plan for financial decentralization.

This division of responsibilities initially came under question. Experts noted that real decentralization was possible only if administrative decentralization

were to be accompanied with the fiscal kind. The first reform of the distribution of responsibilities between the center and subnational units, as well as the municipal reform designed by Kozak in the first half of the 2000s, had demonstrated that the ministries and agencies responsible for tax and budget policies were able to consistently block any initiatives aimed at transferring budgetary resources at the lower tiers. As a result, the aforementioned reforms (especially the municipal one) led to the establishment of governmental units possessed of significant responsibilities but deprived of sufficient financial resources. Consequently, these reforms strengthened centralization in Russia instead of developing an effective decentralized system of government.

Medvedev's decentralization was unable to avoid poor results. Toward the end of 2011, Kozak's group proposed the delegation of many supervisory responsibilities to the regional level. As a result, up to 200,000 federal officials would have been moved to the regional level. But Khloponin's group was unable to find an opportunity to increase regional tax revenues by more than 9 percent of the consolidated regional budgets (Zubarevich, 2011). This discrepancy prevented any radical changes in intergovernmental relations.

However, even that decision was not realized. The work of Khloponin's group was stopped when Vladimir Putin returned to the presidential post in 2012. Soon, the government announced that, instead of the 100 units of responsibility Kozak's Commission had proposed, regional governments would receive additional control in such spheres as ecology and environment, food quality, labor relations, forestry, and public transportation. At the same time, the potential reformers declared that control over regional governments would be strengthened, and that governors would be personally responsible for adequate implementation of the new functions.

Along with the need to manage the consequences of the economic crisis, in the third phase, the federal government visibly subordinated its regional policy to the geopolitical interests of the federal center. The first signs of this approach had appeared in 2008–2009, soon after the armed conflict between Russia and Georgia and the Russian recognition of South Ossetia's and Abkhazia's independence. As a result, South Ossetia, a territory with an extremely poor population and a lack of an effective economy, informally became a Russian region. It received significant financial aid from the federal budget. In 2008–2011, the share of Russian grants in South Ossetia's budget reached 97–98 percent, and in 2012–2014 it amounted to more than 80 percent of the republic's total budget revenues (Golunov, 2014). It is noteworthy that it is the Ministry of Regional Development that was responsible for the development of South Ossetia's economy.

In 2012, the new Ministry of the Far East's Development was established. Its responsibilities covered the coordination of the federal government's actions aimed at developing the regions of the Far Eastern federal district, and control over the regional governments' policy. In 2014 two other "territorial" ministries were formed. After the Russian annexation of the Crimean peninsula, the Ministry of Crimean Affairs appeared, and, two months later, the Ministry of North Caucasus Affairs commenced operation.

In fact, since 2010, an extremely complicated system of territorial governance has developed within the government. Alexander Khloponin was appointed simultaneously as the president's plenipotentiary representative in the North Caucasus federal district and as a deputy head of the Russian government. In 2014, the president appointed a different representative, but Khloponin retained his responsibility for coordination of governmental actions in the North Caucasus and the just-created Ministry of North Caucasus Affairs.

The first minister of the Far East's development was Viktor Ishayev, the president's representative in the Far East federal district. A year later, in 2013, he was replaced by Yury Trutnev as the president's representative and by Aleksandr Galushka as minister. At the same time, the post of the president's representative was combined with the position of a deputy head of the government.

In that situation, the dissolution of the Ministry of Regional Development was a logical and justifiable measure. The president and the government demonstrated their will to govern specific territories according to a special regime instead of developing a general strategy of territorial governance.

The new Ministry of the Far East's Development soon showed itself to be an effective lobbyist, since it could push the creation of a new mechanism of regional development—the territories of advanced development (TOR, *territorii operezhaushchego razvitiia*)—through the government.² Generally, the TOR are similar to the OEZ: they are special territories that provide their residents with special conditions for doing business. But, unlike the OEZ, the TOR received unprecedented rights. The ministry was able to defend the right not to divide the TOR into types and, consequently, attract different kinds of businesses, whichever were most profitable, into each new territory. Additionally, the TOR conditions were more inviting. They included reduction of several tax rates (property tax, land tax, mining tax, and profit tax), a duty-free regime for foreign products, and the absence of limitations on the use of foreign labor by resident companies.

The formation of the new organizational system of territorial governance in the government became evidence of new tendencies arising and dominating in regional development policy. During the 2000s, the key ministers had successfully resisted the influence of territorial interests on the policy process at the federal level. Their ideology presupposed that federal investments should be “regionally blind” in order to achieve the best results for the country's development. But by 2012, Alexei Kudrin, the leader of the governmental reformers at the end of the 2000s, had left the executive. New ministers of finance and economic development, while being former members of Kudrin's team, did not have a similar level of influence over the president. Rather than structural reforms, the need for governmental interventions became a popular idea in the government, resulting in the institutionalization of territorial lobbyism.

Finally, the 2010s were a period that saw a chain of so-called mega-events. Most of these had been initiated in the 2000s, before the peak of the crisis, but their realization came in the third phase of the implementation of the regional development policy. The APEC Russia 2012 summit in Vladivostok, the 2013 Summer Universiade in Kazan, the 2014 Olympic Games in Sochi, and the 2018

World Cup—all were taken up to increase Russia's status in the international arena. But at the same time, they were considered by both governmental officials and regional leaders to be a way to provide significant public and private investment in the regions that had agreed to host those events.

Thus, the 2010s were a period of ambiguity in Russian regional policy. The consequences of the 2008 economic crisis, as well as the staff changes in the government and the president's team, led to the revision of the ideology behind governmental regional policy. The territorially blind strategy and support for the developed regions through provision of long-term public investments were replaced by regionally based support for lagging subnational units and federal districts. In addition to annual budgetary transfers, the federal center introduced long-term mechanisms for territorial development in order to provide financial and infrastructural support to amplify economic growth in depressed regions and towns. Systemic support of economically strong regions came to a halt. They now received additional federal finances predominantly as a result of their lobbying pressures within the framework of interregional competitions for federal programs or for the right to host a mega-event.

Agency matters: factors in the success and failure of changes in regional policy

The history of the development of regional policy allows me to draw certain important conclusions for understanding the particularities of this aspect of public administration in Russia.

The 1990s, the 2000s, and the 2010s present three periods when the Russian government sought to achieve different goals and consequently implemented dissimilar policies in the sphere of regional development.

In the 1990s, the government's main goal was arranging a clear and effective system of intergovernmental finances, which would provide formal requirements for regional governments to receive federal support. Other mechanisms of regional policy were used unsystematically and inefficiently. Economically, the center aimed to provide financial support for the regions that were experiencing especially serious problems under the conditions of the current economic situation, and were unable to implement their basic responsibilities. This old-style equalizing policy was the only one possible under the conditions of an extremely poor federal budget and a high demand for federal assistance.

However, at the same time, the federal government had to address the results of the intergovernmental politics of the end of the 1980s and the very beginning of the 1990s. The threat of Russia's disintegration, the president's electoral dependence on regional elites, and the absence of strong institutions of financial intergovernmental relations strengthened individual bargaining on all significant issues of intergovernmental finance.

The 2000s can be described as the period of the "policy window." Vladimir Putin achieved obedience from both the governors and the federal parliament. The economic conditions provided significant resources and allowed the government to

avoid the need for emergency action to rescue the regions from financial, economic, and social catastrophes. As it had been in the early 1990s, the government was filled with reformers, and many reforms were launched. For regional policy, this became a period of gradual introduction of advanced mechanisms of development, proposed and realized by the reformers. In the sphere of intergovernmental finances, the same people designed the policy of centralization. The government replaced a significant part of regional tax sources with intergovernmental transfers, increased the scope of regional responsibility, and tightened federal control over both budgetary spending and regional officials' actions, thereby strengthening the dependence of regional governments on the federal level.

Thus, this period displayed contradictory tendencies, with intensive interventions and growing attention to infrastructure accompanied by institutional changes aimed at centralizing the system of government. In Chapter 4, I will show that this deepened the problem of informational asymmetry and interfered with the regional governments' ability to concentrate on finding their own sources of regional development. In theory, decentralization promotes a process of interregional competition not only for federal funds and projects, but also for private investments and for the attention of current and prospective taxpayers within the regions. However, the simultaneous implementation of political and financial centralization led to complete integration of regional governments into a unified system of government in a country where officials at the lower tiers are obliged to achieve performance indicators set by the central government.

The next period followed the 2008 world economic crisis. It was not a time of new initiatives in regional policy. The effects of the crisis and sanctions by the USA and the European Union forced the government to cut many strategic projects. The territorially blind mechanisms of development began to be used to develop territories strategically important for the federal center: additional federal support was allocated mainly to the republics of the North Caucasus and Crimea, and regions of the Far East.

Thus, there was only a relatively short period—the 2000s—when it would have been possible to modernize regional policy significantly, as the policy window was open and the relevant ideas had come into existence. Below I will explain why this modernization did not take place.

According to the first hypothesis formulated in this chapter, policy reforms can be initiated by *shocks—both external and internal—that are able to make the government change current patterns of regional development policy and find new means of administration in this field*. In the case of the Russian regional policy, this expectation is partially validated.

The observed case does not demonstrate any influence on policy-making from internal shocks. Among external shocks, the most visible are the two world economic crises. Their significance for policy-making is that they revealed problems that needed to be resolved in order to overcome the crisis and to accelerate Russia's development. For instance, in 1998, the non-transparent system of intergovernmental finance did not allow the government to make budget spending more effective and consequently to mobilize resources under the circumstances

of the financial crisis. In 2008, the crisis made immediate the problems of mono-towns and territories suffering from depressed economies and dependence on a single economic sector. The armed conflict with Georgia, the annexation of Crimea, and many other shocks set new goals for the government.

However, the shocks did not create a repertoire of policy measures. Rather, they contributed to a return to familiar practices of governance. In this instance, the crises strengthened the equalizing component of intergovernmental finance and the federal center's control over the regional governments.

The second hypothesis asserts that *policy changes are more likely to happen if a government has the support of public opinion and a loyal parliament*. This expectation of public opinion's influence is derived from the "democratic" view that any public policy program is an object of public interest. Hence, to avoid society's dissatisfaction, especially during electoral campaigns, governments prefer to realize measures mostly supported by public opinion and defer their implementation as long as possible.

But there have been no public discussions of a strategy of regional policy in Russia. Due to the circumstances of the development of Russian federalism, discussed in the previous chapter, the issues of autonomy and decentralization have been absent from the public agenda. Neither national nor regional electoral campaigns have raised the problem of intergovernmental relations as a cause of unsatisfactory economic development in both specific regions and Russia overall.

At the same time, intergovernmental finance has been a significant policy issue for all political actors (but, again, not society at large). Policy changes in this sphere necessarily aroused the parliamentarians' interest, and all significant policy changes—in 1994, 1998, and 2004—were realized during periods relatively friendly to the executive.

It is also noteworthy that the political stream in the sphere of regional policy is guided predominantly not by the parliament's loyalty or the public mood, but by the particularities of intergovernmental relations in the political sphere. During the first period, the regions controlled the center's actions in the field of intergovernmental relations; regional policy was decentralized and individualized. The center's empowerment during the second and third periods allowed it to establish new mechanisms of regional development that were mainly based on the economic calculations of the federal bureaucrats, rather than taking into account the political interests of federal or regional leaders.

The third hypothesis underlines the importance of *the content of proposed policy changes*. The evidence presented is in line with the expectation that simpler proposals that would change a single area of intergovernmental relations are more successfully realized than complex reforms that simultaneously include several fields of regional development. In Russia's case, specific government teams prefer to work with different subfields of regional policy. Intergovernmental finance is the Ministry of Finance's sphere of responsibility. The Ministry of Economic Development is in charge of infrastructural projects and special programs of territorial development. The Ministry of Regional Development's attempt to propose a full-scale reform program that would cover different fields

of government ended in complete failure. From this perspective, the project of development of agglomerations confirms this observation: it did not initiate radical changes in established intergovernmental relations, but was limited to a proposal to create suitable conditions for boosting economic processes in the relevant territories.

Finally, the fourth hypothesis highlights the significance of the interests and strategies of the participants in the policy process, as well as the institutional context of their relations. This factor is the most influential in the case of Russian regional policy. My analysis confirms that the institutional design of the Russian political system leads to extremely high significance of the individual makeup of the government on the one hand and the particularities of personal relations between individual members of the government and the president on the other. The ideological preferences of the government's key ministers determine the governmental policy strategy, including in the sphere of regional policy, and the president's support allows a reform to be protected from the interests of other politicians, bureaucrats, and interest groups.

Overall, by this point, the Russian center has yet to establish a unified and cohesive system of regional development that would cover all subnational units and propose both clear goals for their development and the tools to achieve them. Regional development has been a policy of secondary importance, one that has been subordinated to either the political interests of the Russian leadership (as we observed in the 1990s and observe in the 2010s) or the interests of economic development in the whole country (as happened in the 2000s). This may have been caused by the particularities of the formation of the federal state in Russia and thus by the relations of citizens and governmental officials with the subnational level of government as an integrated part of a unified system of public administration.

Notes

- 1 I have to note here that throughout the book I will use the word "region" to define a subnational unit of a state that is located between the national (federal) and municipal tiers of government.
- 2 Supported by the president, the initiative was realized. Moreover, later, the president proposed to use the mechanism to support monotowns.

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3 Who, how, when, and how much?

Factors of the redistribution of intergovernmental transfers in Russia

In 2011, Alexei Navalny, one of the leaders of the opposition movement in Russia, actively supported the popular campaign “Enough of feeding the Caucasus!” Prior to a meeting that took place in Moscow to assemble supporters of the campaign, the liberally oriented radio station *Echo Moskvy* asked their listeners if they considered the slogan appropriate. In total, 86 percent of those who participated agreed with the statement and 14 percent did not. Later, on the radio station’s website, the same slogan was supported by 61 percent of visitors (Razvorot Radio Show, 2011).

In spite of the fact that the meeting brought together mainly representatives of nationalist movements, Navalny attempted to avoid purely nationalist debates and steered the discussion toward the rules for redistribution of federal financial support among subnational units. He raised questions concerning the status of the republics of the North Caucasus within the Russian federal system, the political and economic situations in those regions, the problems of corruption, and many other issues. It was probably the first attempt to introduce the debates on financial intergovernmental relations into the public agenda.

Navalny did not succeed in achieving that goal. Russian society did not express an interest in the discussion of difficult questions of intergovernmental finance, nor in the problems of Russian federalism at large. Further development of this line of argumentation merely brought Navalny closer to the nationalists and alienated the liberals and democrats. This is why Navalny soon abandoned that rhetoric.

At the same time, revealing the factors that contribute to the particularities of intergovernmental finance in Russia is a very important task indeed for understanding how the contemporary territorial system functions. The process of distribution of money between the regions is influenced by many economic and non-economic factors, and the domination of some of them may characterize intergovernmental relations better than the existence of gubernatorial elections or the specifics of the national economic policy aimed at subnational units.

This chapter is devoted to explicating the factors, other than the socio-economic ones, involved in the distribution of intergovernmental transfers in Russia in the 1990s, 2000s, and 2010s. Using the results of statistical analysis conducted by different authors interested in intergovernmental transfers in

Russia, as well as my own statistical research, I will attempt to understand, first, when political factors had the most significance and, second, what circumstances contributed to their importance.

The academic discussion on political factors in the distribution of intergovernmental transfers in Russia

Studying the factors and the effects of the allocation of intergovernmental transfers is a popular research field in economics and political science (see, for example, a review in Hagen, 2008). Academic discussions here concern mainly how politicians and bureaucrats manage two problems. The first is the “common-pool problem,” which, as applied to intergovernmental relations, deals with the fact “that residents in one region benefit from taxes paid by residents in other regions” (Hagen, 2008). Numerous studies demonstrate that this problem, exacerbated by the “soft budget constraints problem” (Qian and Roland, 1999), leads to systematic overspending by those regions that receive more bailouts. Another question derived from the common-pool problem is, who implements redistribution of finances in this common pool, and how and why? The motives of central governments are affected by different circumstances—both political (Nordhaus, 1975; Hibbs, 1977) and economic (Rodden et al., 2003).

The second direction of the aforementioned studies focuses on the “principal–agency problem,” which raises the question of how control mechanisms are arranged in this field of governance. Usually, scholars use the concept of principal–agency relations to analyze the delegation of responsibilities either from voters to elected politicians (Tabellini, 2000) or from legislatures to executives (McCubbins and Schwartz, 1984; McCubbins et al., 1989). The model is rarely used to explain the particularities of relations between governmental levels, especially in federal states, although the attempts that have been made have demonstrated interesting results (Sharafutdinova, 2010).

I will pay special attention to the development of the principal–agency problem in understanding the particularities of Russian federalism in the next chapter. In this chapter, I would like to concentrate on the factors that force central governments to allocate financial assistance in particular ways.

The Russian case is particularly interesting as an object of such studies. Russia possesses several features that amplify the effects of the common-pool problem. Among them are the large number of subnational units; the dramatic gap in economic and social development between the developed and the lagging regions; the existence of a plural society that increases the need to appease regional elites and communities; and the dependence of the federal politicians on the regional elites that even in the 2000s and 2010s control the electoral processes in their territories.

In the last 20 years, there have been many research projects devoted to factors in the allocation of intergovernmental transfers. Here, I provide an overview of the most significant. In each case, I am interested in understanding what kinds of political factors influence the distribution of intergovernmental transfers and

what model—political co-optation or political cronyism—the federal government chooses in each specific period of Russia's history.

Daniel Treisman (1996, 1998, 2001) is the author of one of the most famous and rigorous analyses of intergovernmental transfers in Russia in the 1990s. Treisman does not consider intergovernmental transfers to be part of regional policy. He believes that the center used its financial resources mainly to stabilize the socio-economic situation in Russia instead of achieving the goals of territorial development. The materials in the previous chapter of this book support this position. They demonstrate that the central government did not have any strategy of regional development in the 1990s, since it was allocating all available financial resources to resolving its immediate problems—political, economic, social, etc.

Another relevant feature of Treisman's analysis is his means of measuring intergovernmental transfers. In his research, Treisman uses, on the one hand, federal money transferred at the regional level and, on the other hand, taxes collected in the regions and transferred by regional authorities to the federal budget. This method is justified by the practice of individual bargaining on the specifics of intergovernmental finance in the cases of the most influential Russian regions. Based on this, Treisman defines the dependent variable as "per capita transfers of financial resources to the regions net of tax payments to the centre" (Treisman, 1996: 308).

According to Treisman's results, in 1992–1996 the central government mainly realized a strategy of political co-optation. In 1992, autonomous republics that had declared their sovereignty, regions where long-term and mass strikes took place, and territories with a low level of electoral support for President Yeltsin received a larger share of transfers than regions more loyal to the center. In 1994, the growth of federal flows was increased by such factors as the low level of electoral support for *Vybor Rossii* in 1993 and regional elites' opposition to the president's actions in September–October 1993, as well as a larger number of representatives of certain regions in the State Duma. In 1995 and 1996, the parliamentary and presidential campaigns affected the distribution of transfers. Perceiving these elections as crucially important for saving the political regime, the federal government used all available resources to appease the regional elites and electorates. In 1995, the government explicitly bought the support of regional leaders for the *Nash Dom—Rossiya* (NDR) party list: more transfers were allocated to the regions that had delegated their governors or deputy governors to the NDR. In 1996, the frequency of the president's visits to the regions during his electoral campaign positively influenced federal financial support. Of course, the political factors were accompanied by economic ones. Overall, they were aimed at supporting the regions that had the deepest economic problems in order to ensure acceptable living standards there.

Treisman's analysis ends with 1996. This does not allow for the assessment of possible changes in transfer politics under the conditions of the transformation of the political regime and the improvement of the economic situation. A research project by Vladimir Popov (Popov, 2004), which covers the period from 1992 to 2001, solves this problem.

Popov applies a different method for defining the dependent variable: he suggests using “total net financial flows between the regions and the center,” which contains all revenues and outlays concerning intergovernmental relations. In addition, Popov introduces so-called “ideal transfers” into the analysis, which show

the difference between taxes that the region is able to collect, given the objective conditions in this particular region, the average Russian level of tax rates and tax compliance, and expenditure that the regional government should make in order to ensure the provision of the average Russian level of public services to local inhabitants.

(Popov, 2004: 519)

As a result, Popov agrees that political factors played a significant role in the process of redistribution of federal financial support in the 1990s and at the beginning of the 2000s. But, *ceteris paribus*, autonomous republics, pro-presidential regions, and influential regions that did not have significant conflicts with the federal government had more transfers than oppositional regions, which were punished, i.e., the center implemented a strategy of political cronyism. The only exception was the period 1992–1993, when the analysis did not identify any “political” bias in the patterns of transfer allocation. Thus, the political and economic changes on the cusp of the 1990s and the 2000s did not transform the federal government’s strategy concerning transfer politics.

Israel Marques, Eugenia Nazrullaeva, and Andrei Yakovlev (2016) contest the idea that the center implements a unified strategy with regard to all regions. They analyze the allocation of federal transfers in 2000–2008 (measured as total federal transfers per capita to the regions) to answer the question, “how do political leaders allocate government largess to voters?” (Marques et al., 2016: 23) Based on the literature, which discusses two models—the core voter (allocation of transfers in favor of loyal voters) and swing voter (distribution of finances to get new supporters) models—the authors show that how politicians choose between them depends on the dynamics of the region’s economic growth. Given low levels of growth, the center supports the regions that are usually loyal to the federal ruling politicians. When it comes to regions with high levels of economic growth, the center attempts to co-opt usually oppositional regions. Hence, the center is able to realize both strategies simultaneously. The federal government relies on the dynamics of regional economic factors rather than national political determinants.

Gulnaz Sharafutdinova and Rostislav Turovsky (2016) turn their attention to the fact that almost all authors analyze the intergovernmental transfers from the perspective of the central government’s strategies and actions. Sharafutdinova and Turovsky’s observation is that regional lobbyism matters in Russian intergovernmental relations even given a tendency toward centralization. Often, the regional elites initiate projects for special programs of federal support, as in the case of the 2013 Universiade in Kazan or the federal program for developing

the Republic of Karelia. Therefore, this new research focuses on examining regions' potential to influence the existing allocation of transfers.

The authors use a novel way of measuring the dependent variable. They attempt to capture "politically sensitive" transfers, measured as "the share of transfers that excludes the equalization grants and subventions calculated using relatively objective criteria" (Sharafutdinova and Turovsky, 2016: 6–7). As a result, they find that gubernatorial lobbying capacity (measured as top federal officials' visits to regions) and regional administrative capacity (measured as voter turnout in the federal elections) to a significant extent explain the federal government's decisions on distribution of funds between regions in 2002–2012.

This is a very important conclusion that illustrates the opportunities available to the regional leaders during the period of Putin's centralization. Under the conditions of gradual formalization of budgetary institutions aimed at equalizing the vertical fiscal imbalance, the distribution of an increasing volume of other types of transfer continued to depend on non-economic factors. Sharafutdinova and Turovsky's research demonstrates that regional leaders have continued to use all their informal options in order to receive additional financial support from the federal center.

Overall, this overview of recent studies in the field of revealing the political factors in intergovernmental transfers allows us to conclude that politics matters. However, it is difficult to understand the strategy being implemented by the center, since the studies produce different results depending on the calculation of dependent variables.

(De)politicization of intergovernmental transfers during 1998–2015

This book's basic thesis is that the transformation of intergovernmental relations in Russia should be analyzed through the lens of changes in the political regime, as well as the growth of Vladimir Putin's political power. From this perspective, the redistribution of intergovernmental transfers can be seen as an effective instrument in the hands of the federal government, since it is able to both reward obedient regional elites and punish potential or actual challengers. However, due to insufficient financial resources, the center tends to restrict the spending of transfers on political goals and has room to realize the socio-economic goals of redistributive policy.

When does the center employ the strategy of politicization of financial transfers? My suggestion is that it makes use of it when the level of political uncertainty is highest. Taking care to protect their governing positions, federal officials use financial resources as an additional instrument for pressuring the regions and their elites and electorates. It is obvious that elections are a key event in any political process, one that produces said level of uncertainty and which is deeply sensitive to the territorial dimension of politics. In modern authoritarian regimes, elections provide the opposition with a unique opportunity to participate in political competition. Even if the opposition candidates possess

no real chance to win, they are able to seriously undermine the rulers' popularity. That is why it is no less important for the incumbents to obtain a high level of support from the population to serve as evidence of strong legitimacy of both the rulers and the regimes they have built.

The idea of the political business cycle, developed by William H. Nordhaus (Nordhaus, 1975), provides an understanding of how electoral processes impact on governmental policy outcomes. In his article, Nordhaus proved that the classic choice of the trade-off between the level of inflation and the level of unemployment is politically determined: "there is a predictable pattern of policy, starting with relative austerity in early years [of an electoral regime] and ending with the potlatch right before elections" (Nordhaus, 1975: 187). This model can be reformulated in terms of uncertainty: the years with the highest levels of political uncertainty precede federal elections and lead to a significant increase in the influence of political factors. In turn, the periods following elections involve increasing significance of socio-economic determinants of distribution of transfers.

However, an alternative hypothesis can be suggested. Transfer policy may be influenced by political factors permanently, regardless of how soon the next elections are to be held. Unlike stable democracies, in authoritarian regimes, as Schedler notes, rulers' hold on power is never secure (Schedler, 2013). Consequently, one can expect that autocrats will always politicize a policy process because they will never have absolute assurance of keeping their positions.

To test these theories, I began by analyzing the distribution of annual transfers in the period from 1998 to 2015. The linear regression analysis included results of intergovernmental transfers' annual distribution in 73–78 subnational units.¹

To identify the level of socio-economic well-being of a region, three indicators were used:

- 1 average personal income in a region (rubles per capita per year);
- 2 gross regional product per capita (million rubles per 10,000 people per year);
- 3 percentage change in gross regional product (from the previous year).

These three indicators allow for assessment of different aspects of the economic and social situations in the Russian regions. The average personal income demonstrates the population's level of well-being. The level of the gross regional product shows the extent of economic development in a region, while the change in the gross regional product evaluates the tendencies of economic development in a region. The regression analysis I will present includes the socio-economic indicators for the year preceding the one during which federal funds were allocated. To satisfy the assumptions of linear regression analysis, the indicator of the gross regional product has been transformed into its logarithm.

The federal center's political motivation was captured by two possible factors—*levels of loyalty and of opposition of a region's electorate in the national elections*. I used the results of both presidential and parliamentary campaigns

because both the president and the State Duma participate in the process of design and adoption of annual budgets. Therefore, the analysis included the results of popular voting for Boris Yeltsin and Gennady Zyuganov in the presidential elections of 1996 (the second round), for Vladimir Putin and Gennady Zyuganov in 2000, for Vladimir Putin and Nikolay Kharitonov in 2004, and for Dmitry Medvedev and Gennady Zyuganov in 2008. The percentages of votes for Yeltsin, Putin, and Medvedev were taken to represent the level of regional loyalty, while Zyuganov and Kharitonov's results were interpreted as the level of regional opposition.

In parliamentary elections, regional loyalty was assessed using the electoral results of the party *Nash Dom—Rossiya* (NDR, Our Home is Russia) in 1995, Yedinstvo in 1999, and United Russia in 2003 and 2007. The level of regional opposition is demonstrated through the electoral results of the Communist Party of the Russian Federation in all four electoral campaigns. All “political” variables have been presented in the regression in logit-transformed equivalents.

Finally, a dummy variable that indicates whether a region has the status of “republic” was inserted into the analysis to control for the influence of this important characteristic of the Russian regions.

The dependent variable of the analysis is the volume of annual budget transfers from the federal budget to regional budgets. To take into account the sizes of regional populations and economies I calculated a sum of transfers (in thousands of rubles) per 10000 regional residents. Additionally, the variable was subject to a square root transformation to satisfy the assumptions of the linear regression model.

The most significant models from the analysis are presented in Appendix 2. What have we discovered about the impact of electoral factors from these models? The electoral results had the greatest significance in two periods—from 1998 to 2003 and from 2008 to 2015, while in the period from 2004 to 2007 their influence was insignificant. This fact contradicts both the suggestion that the impact of electoral factors depends on the phase of the electoral business cycle and the hypothesis of the permanent politicization of the policy process. Instead, the results show that there were two multi-year periods of politicized transfers and only one period of their depoliticization.

In addition, the models allow me to highlight political cronyism as the predominant strategy of politicization. The regions that voted for Unity in 1999 and United Russia in 2011 had a larger volume of transfers in their regional budgets. The exceptions were the 1998–1999 period of political co-optation (a larger volume of transfers was allocated to the most oppositional regions) and the period of 2008–2011 when political cronyism was implemented as a punishment for regions that voted for the opposition.

However, the analysis of the annual distribution of financial transfers has an important shortcoming—it contains only a small number of observations (78 regions). To overcome this problem, as well as to test the significance of political factors during the specific periods indicated by the previous analysis, in the second phase the regressions were built on the basis of data that grouped annual

transfers into five periods: 1998–1999, 2000–2003, 2004–2007, 2008–2011, and 2012–2015. Two models were tested for each of these periods. The first one did not include the volume of transfers received by a region in the previous year, and the second did. It was impossible to apply the same procedure for 1998–1999 because of the absence of data on transfers for 1997.

The results of the new tests (see Appendix 3) show the impact of electoral factors in all identified periods, including 2004–2007. Introducing the variable of transfers received by the regions in the previous year decreased their significance in 1998–1999, 2000–2003, and 2011–2014, while 2004–2007 and 2008–2011 demonstrate the ongoing influence of electoral factors. Again, in 1998–1999 a larger volume of transfers was received by the regions that demonstrated less support for the pro-governmental party in the 1995 elections. However, after that the strategy changed from political co-optation to political cronyism.

Finally, the third phase of the analysis regrouped the annual data to form three periods, 1998–1999, 2000–2008, and 2009–2015, which reflected the changes in regional development policy described in the previous chapter.

This test confirms the conclusions drawn previously. At the end of the 1990s, the strategy of political co-optation dominated: oppositional regions and republics received a larger volume of transfers. In the 2000s and 2010s, the strategy changed: during the period of 2000–2008, the government rewarded loyal regions, and in 2009–2015 it punished the oppositional regions.

Overall, these results allow me to draw the following conclusions. First, electoral factors have been important determinants during the whole period scrutinized. This fact supports the hypothesis that federal government is at all times attentive to ensuring the political loyalty of the regional elites and electorates. A study of Russia's case alone cannot provide a strong theoretical basis for why this is so, but I can suggest that such politicization of transfer policy is a result of the institutional uncertainty that becomes especially serious in electoral periods, but remains significant during the periods between elections.

These results confirm Andreas Schedler's way of thinking about the particularities of political uncertainty in authoritarian regimes. In such regimes, elections are certainly an important political event, but they do not reduce the list of possible threats to the rulers. As a result, governments have to constantly take political risks into account and include them as a significant factor in redistributive decision-making. This, in turn, must make us acknowledge that the federal government continued to perceive regional communities as a potential threat even after the regional political elites had come under control.

Second, the dummy variable that indicates the republican status of the subnational units demonstrates extremely high significance. To show that the republics receive more transfers than all other types of subnational unit, I compared mean transfers allocated to republics and non-republics in 1998–2015, as well as the mean gross regional product in the same regions and the same period (see Figures 3.1 and 3.2). The results show statistically significant differences in transfers received by republics and non-republics even where the economic positions of both groups are not so different.

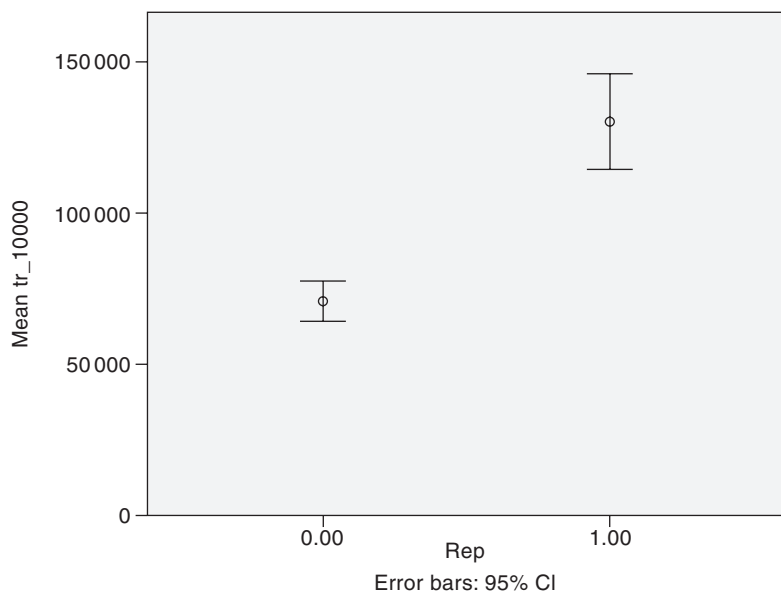


Figure 3.1 Average value of transfers from the federal budget to subnational budgets in republics (1.00) and other types of subnational units (0.00).

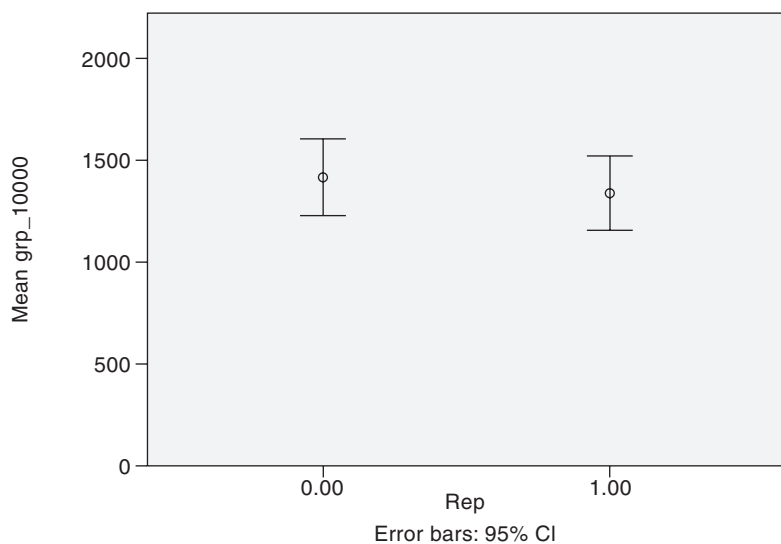


Figure 3.2 Average value of gross regional product per 10000 residents in republics (1.00) and other types of subnational units.

This fact can be explained in different ways. On the one hand, republics persistently demonstrate a higher level of electoral support for Vladimir Putin and United Russia. The only exception was the 1999 parliamentary election, when some republican leaders entered the Fatherland—All Russia regional bloc. On the other hand, this support could be determined by the special attention paid by the federal government to the republics, which included additional transfers and investments. This is why it is difficult to reveal which of the two sides—transfers and political support from the republics' communities—is cause and which is consequence.

Finally, the statistical results demonstrate that most of the transfers have been distributed in favor of the poorest and lagging regions. This is not a surprising outcome. On the one hand, Russian regional policy is clearly oriented at equalizing the budget capacities of economically lagging subnational units with the rest of the country. On the other hand, such regions have become the main sources of both Vladimir Putin and United Russia's popularity (Zubarevich, 2011, 2016).

Thus, transfer policy in the Russia of the 2000s and 2010s was no less politicized than in the 1990s. It did not assert the federal government's complete control over the regional elites, nor were the Ministry of Finance's consequent efforts to make redistribution of financial support more objectively able to overcome the political dependence of the federal center on the regional communities' electoral support. This is why year after year electoral factors continue to influence intergovernmental financial relations.

The draining lake: the disempowerment of instruments of territorial development in Russia

In 2007, the Russian government made the decision to create an OEZ in the Republic of Altai, named the Altai Valley. The project involved creating a lake, with several islands hosting hotels and other tourist infrastructure. The lake's construction took three years, from 2009 to the end of 2011. In January 2012, builders started to fill the lake with water, but soon discovered that the water was draining from the lake due to serious errors in its engineering. After several attempts to fix the problem, in 2016 the government decided to close the project. By that time, more than four billion rubles had been spent from the federal budget to develop the zone (Chernyshov, 2013).

This case is not unique. In 2016, the Audit Chamber of the Russian Federation declared the results of an inspection of several special economic zones (including the Altai Valley) and drew the conclusion that they were completely ineffective. One of the auditors claimed:

The process of the special economic zones' creation and management is characterized by formalism, irresponsibility, and impunity, and by the lack of executive discipline and responsibility for decisions and their consequences. No real economic effect of the special economic zones was achieved.

(Audit, 2016)

As a result, the Audit Chamber proposed revision of the government's approach to creation, management, and assessment of the economic zones, as well as of other tools of regional development that had been actively established in the 2000s and 2010s.

This section attempts to explain the poor results of such mechanisms of regional development. My argument stems from the assumption of rent-seeking behavior by bureaucrats, who tend to use all new policy instruments to increase their own resources and fulfill current tasks of regional development, instead of achieving strategic goals for the development of Russia as a whole. I will demonstrate how federal and regional bureaucrats transform initially narrowly targeted instruments of territorial development into regular tools of regional policy, thereby weakening their essence and decreasing their effectiveness.

It is important to make a distinction between annually distributed financial flows and special funds aimed at supporting long-term developmental regional projects. While annual budgets are influenced by a combination of political and economic factors, long-term projects allow rulers' attention to be paid to strategic issues of the country's development.

Before 2005, only one instrument of long-term territorial support existed in Russia, namely federal programs (*federal'nye tselevye programmy*). In addition, special economic zones had existed since the 1990s in two regions (the Kalinin-grad and Magadan oblasts). But the economic growth of the 2000s and the reformist intentions of Vladimir Putin's government allowed the federal policy-makers to create a system of financial and legal instruments aimed at accelerating economic and social development in the regions.

Those governmental actions had been directly connected with the rationale of centralization since the beginning of the 2000s, which deprived the regions of the ability to propose and realize effective instruments for their own economic growth. First of all, they did not have enough financial resources to plan multi-year economic projects. Furthermore, after the cancellation of direct gubernatorial elections, the regional governments lost the motivation to contribute to prospective economic development, while the federal center introduced electoral results as a key performance indicator for reappointment of governors. Finally, due to the reinforcement of the federation's control over regional authorities' actions, regional bureaucrats tended to avoid realizing projects of uncertain predicted effectiveness since they were afraid of being accused of misappropriation of funds. Under these circumstances, the federal government became a priori responsible for territorial development. A key agency that was put in charge of designing and implementing mechanisms for intensive regional economic development in the country was the Ministry of Economic Development and Trade (MERT) headed by German Gref, one of the core reform-driven figures in the president's team.

The MERT created two mechanisms of territorial development—the new model of special economic zones and the Investment Fund of the Russian Federation. German Gref declared strict principles for the distribution of financial and other types of resources within the frameworks of the new mechanisms. Both

mechanisms implied obligatory competition between regional governments, which were expected to suggest thoroughly thought-out projects with clear potential for the attraction of private investments and significant contributions to the country's economic well-being.

Both instruments were devised as specifically targeted measures to ensure suitable conditions in different territories for economic breakthroughs significant for the economic development of the country as a whole. Ideologically, the MERT embodied a spatially blind approach to territorial development—the officials' attention was focused not on regions and their needs, but on projects and their potential success. Consequently, the regional leaders were to present themselves not as representatives of regional communities, but as managers responsible for the development of specific territories. In addition, while the allocation of annual financial flows aimed at equalization of regional budgets was becoming more and more transparent (although it continued to suffer from the influence of federal politicians' political interests), distribution of financial support within the frameworks of the new mechanisms for regional development was characterized by opaqueness. Moreover, the new mechanisms established in the 2010s after German Gref left the government—governmental programs and territories of advanced development—are often described as initiatives that duplicate existing ones.

Federal and governmental programs

The federal programs emerged within the structure of the federal budget in 1995. They were intended to transition from the principle of annual formation of the federal budget, which was influenced by immediate problems and goals, to a system of long-term budget priorities and financial planning of their implementation that would not be dependent on annual political and economic conditions.

This objective certainly demands an attentive approach to the selection of projects. According to the legislation (*Poryadok*, 1995), the procedure of decision-making in the sphere of the design and implementation of federal programs primarily operates at the level of the federal government. A project of the federal government can be proposed exclusively by a federal ministry. To become a program, the project must be approved by the ministry responsible for the field of public policy the program would contribute to, as well as the Ministry of Finance and the Ministry of Economic Development. After that, the Russian Government needs to discuss and approve the program overall.

Thus, regional governments do not participate in any stage of decision-making on federal programs. Their officials have to persuade the federal government to design a program concerning their region or merely wait for such a program to be created one day. Such a system prevents politically and administratively weak players from participating in the policy process. If regional governments and other potential beneficiaries (for example, commercial companies that would be interested in government investment in the regional economy) do not have enough resources to push their initiatives through all the stages of

decision-making, they are deprived of the chance to effectively take part in the competition for this segment of federal funds.

In the 1990s, such programs became an instrument of additional financial support for the socio-economic development of regions that could demonstrate their significance to the federal government. During the financial crisis at the end of the 1990s, numerous programs of support for regions and cities were stopped. In 2000, only one program of territorial development remained in effect (see Figure 3.3). But by 2003 the number of such programs reached eight, and by 2006, 10. Then the new economic crisis decreased the number of programs to eight, and in 2014 the government financed only five of them. Appendix 4 assembles all programs implemented in the 2000s and 2010s.

The federal programs have not become a dominant mechanism for budget spending in Russia. By 2010, only 8 percent of all federal budget expenditures were allocated through them. The federal government applied the federal programs as a financial tool that allowed it to plan (but not guarantee) the distribution of money to realize a project that lasts over several years. However, consistent implementation of such a plan contradicted the dominant ideology of the federal budget's formation in the 1990s and the 2000s, which was based on annual planning of income and expenses and did not demand accurate implementation of either mid-term or long-term plans and strategies. Thus, federal programs have been considered a financial instrument of project management, but not a framework for strategic planning of governmental action in a long-term perspective. To overcome this tendency, in 2010, the government established a mechanism for governmental programs (*gosudarstvennye programmy*) in the form of official documents that contained the main goals of the government's activity and tasks intended to reach these goals. Since then, the government has

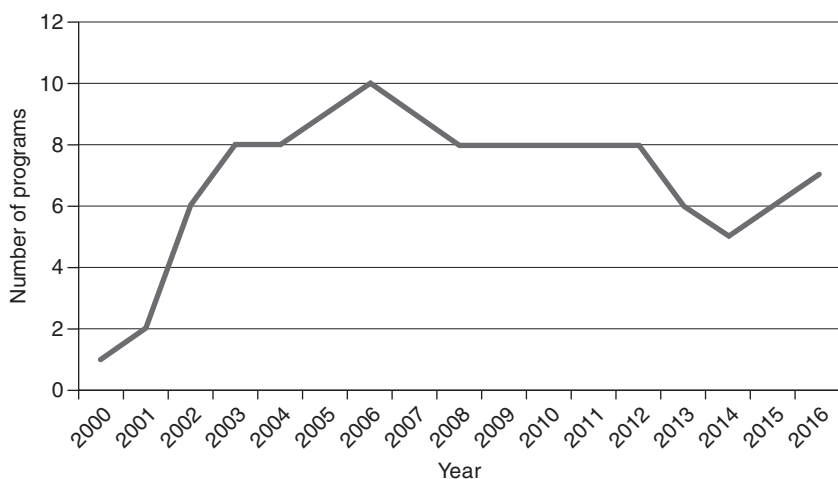


Figure 3.3 The number of federal programs in the 2000s and 2010s.

Source: Russia's federal programs (<http://fcp.economy.gov.ru>).

implemented 45 governmental programs, grouped into five program blocks: “New Quality of Life,” “Innovative Development and Modernization of Economy,” “Securing National Defense,” “Balanced Regional Development,” and “Effective Government.” Together the programs cover around 70 percent of the federal budget’s expenditures and include all federal programs that received the status of subprograms of the governmental programs. Appendix 4 contains lists of the governmental programs and subprograms included in the Balanced Regional Development set.

All of the programs designed and implemented since the beginning of the 2000s can be divided into four groups.

The first one assembles programs intended to provide financial support for the nationally significant regions. Two of these federal programs are meant to allocate federal funds to the economy of the Chechen Republic, and others to Kaliningrad Oblast, Tatarstan, Bashkortostan, the Republic of Ingushetia, Sakhalin Oblast, and Crimea.

The programs devoted to the Chechen Republic, Kaliningrad Oblast, Ingushetia, the Kuril Islands, and Crimea have been motivated by both socio-economic and political—even geopolitical—factors. All these regions perform crucial political roles: the Chechen Republic and Ingushetia are genuine sources of terrorist threats, Kaliningrad Oblast is the Russian exclave within the European Union, the Kuril Islands’ territory is claimed by Japan, and Crimea received its own federal program after Russia annexed its territory in 2014.

The first program of support for the Chechen Republic was an atypical example amidst such a group of programs. Its title—“Recovery of the Economic and Social Spheres in the Republic of Chechnya (2002 and thereafter)” —contradicted the rules for composing federal programs since it did not indicate a time limit for federal financing. It could be implemented for as long as the federal government wanted. At the same time, at the point when the program launched, no one knew the potential scale of the total sum of federal finances. Every year, the amount of funding was agreed through a process of intergovernmental negotiations. Overall, around 53 billion rubles were spent from the federal budget through this program (Tokareva and Silin, 2016).

The program ended in 2007, but in 2008 a new one was launched. It covered the period from 2008 to 2012 and allocated 98 billion rubles to the republic’s economy (Tokareva and Silin, 2016). In 2013, the federal government stopped financing Chechen developmental projects through the federal program. This fact was presented by Ramzan Kadyrov, the head of the Chechen Republic since 2007, as evidence of his government’s economic success. However, specific forms of financing of the republic from the federal budget continued. For example, at the beginning of 2016, Chechnya achieved 14 percent growth in federal transfers in spite of the fact that the rest of the regions suffered a 12 percent decrease (Malysheva, 2016). At the end of 2016, Kadyrov fiercely claimed that it was unacceptable to cut federal financial aid for the republic as it attempted to recover after the war (Bondarenko, 2016). As a result, Chechnya, along with Crimea and Sevastopol, is to receive significant additional subsidies

in 2017 (Bocharova, 2016). Finally, the federal program “Russia’s South” and the governmental program for development of the North Caucasus continue to be in force. Within the framework of these instruments, Chechnya retains first place among the beneficiaries of federal financial aid.

The federal programs aimed at social and economic development of Tatarstan and Bashkortostan illustrate how changes in regions’ political status impact on the additional federal transfers they receive. It is undoubted that at the beginning of the 2000s these two regions were among Russia’s economic leaders. At the same time, during the five years of the programs’ implementation, Tatarstan received over 61.5 billion rubles, while Bashkortostan received over 34 billion rubles during the three years when its respective federal program was in effect.

The specific pattern of intergovernmental relations between the federal center and these two republics is rooted in the political process of the 1990s, when the latter acted as leaders of regional movements seeking the highest level of regional autonomy. The federal government had no options for controlling the regional elites and was forced to buy their political loyalty. At that time, Tatarstan and Bashkortostan received the unique right not to transfer taxes collected within their territories to the federal budget. This practice continued until the end of the 1990s, when Yevgeny Primakov’s and Vladimir Putin’s governments imposed stricter tax and budget policies.

But federal programs became a new form of financial support of the republics’ loyalty. The descriptions of both programs stated that the volumes of federal investments allocated to the programs’ frameworks should be corrected annually in accordance with the volumes of taxes that the republics transferred to the federal budget. That is, the programs were considered to be compensation for the republics’ participation in standard financial intergovernmental relations.

In 2001–2003, when these programs appeared, the process of centralization of intergovernmental relations was in its earliest stages, and the regional leaders met it with hostility. The federal government sought to enlist Mintimer Shaimiev’s and Murtaza Rakhimov’s support. Both programs were terminated in 2006, soon after gubernatorial elections were eliminated: the campaign for administrative centralization established a system of complete subordination of regional governments to the federal center, and consequently the center was able to control the regional elites.

However, the fact of the political dependence of regions on the federal center did not put an end to the standard process of lobbying that was (and continues to be) a feature of any political system. An illustrative case here is the emergence of the federal program “Development of the Republic of Karelia during the period until 2020,” which granted that region financial support alongside such border regions as Kaliningrad Oblast, the Republic of Ingushetia, Sakhalin Oblast, and Crimea.

Unlike these geopolitically significant regions, Karelia did not possess any particularities that would force the center to support it in line with the others. The program was a result of individual negotiations between the representatives

of the republican and federal elites. In 2020, Karelia will celebrate its anniversary—100 years since the republic was established. The special commission responsible for preparing for this date is headed by Nikolai Patrushev, a former director of the Federal Security Service and current Secretary of the Security Council, who worked in Karelia in the early 1990s. As a result, the republic was able to build a sufficiently strong coalition to persuade the federal government to create a new federal program. But the process of its implementation in 2016 and 2017 demonstrates the weakness of seeking federal financial support without being able to provide serious arguments to force the central government to implement it. Despite the fact that the republic is to receive three billion rubles between 2016 and 2020, in 2016 only 200 million rubles were transferred from the federal budget, and 170 million are to be allocated in 2017 (*Glava*, 2016).

The second group of programs is devoted not to whole regions but to their specific territories. By contrast to the 1990s, when a number of federal programs were devoted to the development of cities and parts of regions, in the 2000s and the 2010s only two such programs have been implemented—in Sochi and in the Kuril Islands.

The federal program “Development of Sochi as a Mountain and Climate Resort (2006–2014)” followed a proposal by Alexander Tkachev, then governor of Krasnodar Krai, to establish a world-class resort zone in the krai. The idea of competing for the right to hold the 2014 Winter Olympics was part of the regional government’s strategy, and the program became the main instrument for financing the Olympic project. In the period from 2006 to 2014, 185 billion rubles were to be spent from the federal budget. But in 2007, the Audit Chamber identified many serious violations in how the investments were being spent, as well as extremely poor performance at achieving the program’s goals. As a result, the federal government terminated the program, and further financing of the Olympic Games in Sochi was implemented through other mechanisms with the direct participation of federal agencies.

Meanwhile, the program of support for the Kuril Islands is similar to the program for Kaliningrad Oblast. The islands are a territory with low levels of economic development and poor living conditions. At the same time, they are the object of a territorial dispute between Russia and Japan. As such, because it contains this politically sensitive area, the Sakhalin Oblast is a recipient of federal financial support.

The third group of programs includes projects that cover several regions simultaneously. The programs for the development of the Far East and the North Caucasian regions, as well as the program aimed at increasing the effectiveness of regional and local finances, are examples of such instruments. The establishment of these programs can be interpreted as a trick aimed at introducing as many regions as possible to the process of receiving this segment of funds even as the total number of “territorial” programs was reduced at the beginning of the 2000s. At the same time, it is obvious that the selection of regions eligible for these funds is politically based as well. The program devoted to the Far East—the only one to have been preserved since the 1990s—targets a sparsely populated area located far

from the center of Russia. Meanwhile, in accordance with the “Russia’s South” program, the federal government invests significant financial resources in the economic development of the North Caucasus.

Finally, the fourth group of programs does not directly concern regional or even territorial development. It includes the projects to replace the Black Sea Fleet (a program in effect before 2014, when Crimea was annexed by Russia), to resettle “Russia’s compatriots,” and to support the Russian Nenets people.

Overall, the analysis of all programs allows us to draw the following important conclusions on the specifics of federal decision-making in the sphere of the realization of federal and governmental programs. The reduction in the total number of territorially oriented programs in favor of programs devoted to the development of specific industrial sectors or solving country-level problems demonstrates the government’s transition to a spatially blind approach. However, at the beginning of the 2000s, the federal center could not ignore the political dimension of intergovernmental relations. Therefore, the remaining regionally based programs aim to achieve political (Tatarstan, Bashkortostan, Chechnya) and geopolitical (the border regions, the Far East, and the North Caucasus) goals. Due to the policy of centralization and the need to ensure the center’s political control over regional elites, political motivations gave way to geopolitical ones, which rose in significance during the 2010s. The introduction of governmental programs maintained this tendency.

Special economic zones

The special economic zones laid the foundations for forming new points of growth that could accelerate the economic development of both a given region and the whole country. Initially, the reformers intended to establish two types of such zones—industrial and innovation. The industrial zones were to be located in Russia’s biggest industrial centers, which had significant potential for development and were experiencing a lack of resources, while the innovation zones were designed to support existing technological centers, including Novosibirsk, Tomsk, and Moscow (Fedotova, 2005).

Yet in the process of discussion of the law on special economic zones in 2005, regional governments, members of the State Duma, and representatives of other federal ministries expressed their dissent against the Ministry of Economic Development’s approach (Granik, 2005). Regional lobbyists insisted on making the system of establishment and management of the zones more decentralized and attractive for different types of investors, even those prepared to contribute comparatively insignificant funds to developmental projects. In turn, representatives of different federal ministries argued against the stipulation that only the mentioned type of zones could be created. For example, the Ministry of Communications demanded the creation of a specific type of zone that would be appropriate for the telecommunication industry.

Minister Gref’s administrative capacity in 2005 was enough to insulate this decision from the influence of interest groups and to push the law, including its initial strict principles for the mechanism’s functioning, through the government

and the parliament. But as early as 2006, the government declared the creation of tourist and recreational zones, and, in 2007, port zones. These decisions were the result of pressure from a coalition of parliamentarians and “sectoral” ministries. The ideology of the new zones’ creators was significantly different from Gref’s initial idea. Instead of development of points of growth for the country’s economy, the new zones were intended to solve current problems in two sectors—tourism and transportation.

It is noteworthy that the Ministry of Economic Development and Trade and the special governmental agency responsible for the management of the zones firmly supported the new initiatives, although the Ministry of Finance continued to demand compliance with the original principle of highly selective funding. But that demand failed. As a result, by 2013, 31 new zones (in addition to the two “old” ones) had been established—six industrial, five innovation, three port, and 17 tourist. The industrial and innovation zones were placed in regions characterized by a relatively high level of socio-economic development: the Moscow Oblast, Lipetsk and Tomsk oblasts, the Republic of Tatarstan, and St Petersburg. The tourist zones were located in the less prosperous regions: the Stavropol and Altai Krai, the Republic of Altai, the Republic of Buryatia, and several republics of the North Caucasus. In 2016, the federal government assessed the effectiveness of the zones and found out that some of them did not have serious investors to demonstrate the needed economic results. As such, six tourist zones and two port zones were closed.

Meanwhile, another federal agency, the Ministry for the Development of the Russian Far East, proposed a new mechanism of territorial development—territories of advanced development (TORs, *territorii operezhaushchego razvitiia*). In general, TORs are similar to the special economic zones: they are territories that provide their residents with special conditions for doing business. But unlike the zones, the TORs received unprecedented rights. The ministry was able to defend the right not to divide the TORs into types and, consequently, to attract different kinds of businesses, including the most profitable for each new territory. Additionally, the TORs’ conditions were more attractive to investors. They included the reduction of several tax rates (property tax, land tax, mining tax, and profit tax), a duty-free regime for foreign products, and the absence of limitations on use of foreign labor by resident companies.

Initially, the TORs were designed exclusively as a mechanism for the development of the regions in the Russian Far East, which suffered from a lack of investment and labor. But quite soon the president made the decision to extend the mechanism to the Russian monotowns that had been suffering from some of the gravest problems of social well-being since the 2008 economic crisis. As a result, in 2015 nine TORs appeared in Khabarovsk, Primorsky and Kamchatka kraia, the Republic of Sakha, the Chukotka Autonomous District, and Amur Oblast, and in 2016, 16 more TORs were created in various parts of Russia.

While special economic zones and territories of advanced development are the most significant examples, in recent years the government has created many instruments aimed at accelerated development of the territorial economy, including

innovation-focused territorial clusters, industrial parks, agricultural parks, technological parks, high-tech industrial parks, tourist parks, zones of territorial development, and special economic zones established by regional governments. Their emergence and growing quantity are an effect of the strategy employed by the bureaucracy at all levels of government, intended to raise additional budgetary funds. Most have enjoyed the financial support of the federal or regional budgets, but have not demonstrated significant results. During its discussion of special economic zones, the Audit Chamber claimed that the number of such policy tools is excessive and provides little benefit for either the nation or the regions (Audit, 2016).

The Investment Fund of the Russian Federation

A similar story can be told about the Investment Fund of the Russian Federation, another idea from the reform-driven team headed by German Gref. The government established the fund in 2006 with the declared goal of co-financing large investment projects that would contribute to the development of the country as a whole within the sphere of infrastructure development. Public money was to complement the investments of private companies, which would amount to at least 25 percent of the common project costs.

Initially, the Investment Fund, like the special economic zones, was designed as a spatially blind mechanism. But as early as 2007, when German Gref left his position in the government, the fund was placed under the authority of the Ministry of Regional Development. Dmitry Kozak, then minister of regional development, stated that financial support would be allocated to regional developmental projects. Consequently, in addition to nation-wide investment projects (those with a minimal investment of five billion rubles per project), opportunities for funding would also be given to regional projects (with a minimal investment of 500 million rubles). According to the new rules, every region could seek to receive financing within the limits of annually redistributed quotas, calculated with a special formula designed by the ministry. This money was targeted at regions that lacked resources but could offer promising developmental ideas.

A particularity of the system of distribution of the funds was the complete control of the federal government over decision-making. Until 2006, the MERT was the dominant actor in this area, but since 2007 it has been replaced by the Ministry of Regional Development.

It is noteworthy that the two commissions that made the decisions—the Ministry of Regional Development's Investment Commission, responsible for preliminary estimates of projects, and the Government Commission that made the final decision—included neither experts in territorial development nor representatives of the regions. As a result, the system of fund allocation was insufficiently transparent, although, according to the documents, it was very technocratic.

Thus, a tool designed to support and accelerate development beyond the boundaries of the capitals, and to provide potential points of growth with unprecedented public and private investments, was transformed into a mechanism of support for regional projects once more. To identify the differences between the

initial and subsequent approaches to spending the Investment Fund's resources, one need only look at the projects supported by the government. The list of national projects includes 11 programs aimed at the development of transportation infrastructure in different parts of the country (a sea port in St Petersburg, development of the Volga–Baltic Waterway, construction of railways in territories that are difficult to access, etc.). Meanwhile, the list of 39 regional projects includes an industrial park in Tatarstan, wastewater treatment plants in Bashkortostan and Karelia, a plant for the production of glass containers in Tula Oblast, a logistics complex in Voronezh Oblast, and many others. Thus, the Investment Fund, an instrument of support for national economic projects, was transformed into a means of assistance for regional economies.

The three cases presented above demonstrate the federal government's limitations in introducing spatially blind mechanisms for territorial development. The reasons for this outcome lie in the dominance of bureaucratic interests, combined with the prevalent influence of the federal center's political and geopolitical interests.

The instruments' initial ideology contradicted the interests of the governmental bureaucracy at both federal and regional levels. Federal officials sought to diversify the channels for spending of budgetary funds so as to achieve the goals of their ministries. The case of the Ministry of Communications' request to create special economic zones for telecommunication companies, and the subsequent creation of the port and tourist zones, as well as the Ministry for the Development of the Russian Far East's successful initiative of establishing territories of advanced development, are good examples of the strategic behavior of federal bureaucrats with the aim of increasing their own resource capacities through controlling the tools of territorial development.

In its turn, the regional bureaucracy does not agree with the federal government ignoring the interests of regional development, and actively works to change the instruments' ideology from spatially blind to regionally based. As a result, by enlisting the support of the Ministry of Regional Development, regional governments have gained access to financial support for regional projects from the Investment Fund of the Russian Federation.

These results come as no surprise to those who understand the revolutionary nature of German Gref's policy measures, as the proposals ignored the fundamental interests of both the "sectoral" federal ministers and the governors. But such radical policy changes can be made only with the support of dominant political actors. In the 2000s and 2010s, Vladimir Putin has been such an actor, and has been able to achieve several reforms while protecting the reformers and their initiatives (Gel'man and Starodubtsev, 2016). However, the economic dimension of territorial development has never been on the shortlist for the presidential agenda. Hence, federal and regional bureaucrats use all available opportunities to redirect budgetary funds to achieving their current bureaucratic tasks instead of allocating them to long-term projects with delayed effects.

Another result of this research indicates a change in the non-economic motivations of the distribution of long-term budgetary funds. While in the 2000s the

federal government had to take into account the need for the political loyalty of the regional elites and electorates to the incumbents at the federal level, in the 2010s those motives have been replaced by the geopolitical significance of particular territories.

Note

- 1 The number of subnational units in Russia has been changing in the 2000s and 2010s. Before 2005, the country consisted of 89 regions, since 2005 of 88, since 2007 of 85, and since 2008 of 83. After the annexation of the Crimean peninsula and incorporation of this territory into Russia the number of subnational units became 85. The Chechen Republic and all autonomous districts were excluded from the sample.

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4 Decentralize but not federalize

Coordination, subordination, and control in Russian territorial governance

In 2012, the Russian Ministry of Healthcare changed the model for procurement of medicines for HIV/AIDS patients. Before, the ministry had arranged a single tender for buying all needed medicines and then redistributed them among the Russian regions. During 2012, the process of procurement was decentralized. Every regional government received federal funds and organized its own tender to provide medicines for the regional inhabitants.

This decision was made due to strong pressure from regional authorities, who insisted that centralized procurements led to errors in the distribution of medications—regions received the wrong medicines, or fewer sets than they needed. But the decentralization created other problems. A range of tenders set different prices for the same medications in various regions. As a result, some regional governments had to buy more expensive medications and consequently again faced a lack of money and medicines.

The media reported that thousands of HIV-positive people across the country could not receive their pills. Moreover, the lack of finances led to a practice where HIV/AIDS centers refused to serve people who had temporary residence in a region even though they were Russian citizens. Finally, the decentralization revealed the fact that many regional authorities did not have well-qualified specialists to administrate tenders in accordance with Russian legislation. Consequently, all formal procedures in these regions were implemented half a year late, depriving patients of essential drugs.

As of 2017, the ministry has implemented another reform—it has centralized the procurement of drugs for HIV/AIDS patients and created a unified register of HIV-positive citizens of Russia. These measures are to lead to significant savings in public funds and to solving the problem of people who cannot obtain therapy due to living outside the region of their official registration. But the transition period revealed new problems. Because of the lateness of the centralized procurement, the medicines reached the regions only in April 2017, whereas several regions experienced an acute deficit of the drugs in January–March (*Pereboi*, 2017).

This story is an example of how the system of intergovernmental relations in Russia functions at the level of current public administration. It demonstrates how the federal center attempted to find the best level for the realization of a

function; it also reveals problems in public administration that appeared during the processes of centralization and decentralization, or as their effects. It challenges the effectiveness of control mechanisms in a government system that is called upon to warn of all kinds of negative outcomes in advance.

This chapter is devoted to the current state of the power vertical, i.e., the part of the system of public administration responsible for relations between the federal and regional tiers of government. The chapter will describe its form, and explain the causes of its formation and its effects in different spheres of public policy.

The Russian Constitution and false decentralizations

In 2001, after removing acting regional political leaders from the Council of the Federation and strengthening presidential control over the regional authorities, Vladimir Putin sought to put in place a distribution of competences and responsibilities among all levels of government. To do this, a special commission was established, which has now existed for more than ten years. During this period, its name changed repeatedly—from “on the distribution of responsibilities” to “on the regulation of federal relations,” and “on the development of federal relations.” However, to the mass media and observers, from the very beginning, it has been “Kozak’s Commission,” named after Dmitry Kozak, its permanent chair and one of Vladimir Putin’s confidants.¹

Mintimer Shaimiev, former president of the Republic of Tatarstan, described the results of the commission’s activity in the following way:

In the past, we had been very seriously involved in delimiting responsibilities. In 2002, the Commission [...] prepared a package of legislative proposals. But unfortunately, nearly ten years later, these rules have turned out to be blurred. This is because federal ministries have not wanted to give their responsibilities away, even though we agreed to do it while working on the Commission. Instead of a real delegation of sets of responsibilities, many federal agencies have appeared in the regions, and now they have become a real headache for the center.

(Shaimiev, 2011)

By 2017, the system of public administration had become even more centralized and clumsy. At least two waves of distribution of responsibilities, known as decentralizations, led by “Kozak’s Commission” in the 2000s and 2010s paradoxically reduced the level of autonomy of the subnational units in Russia. Even when gubernatorial elections were restored in the majority of regions, the situation did not change significantly.

In this section, my core argument is that the causes of this situation are not limited to the tactical behavior of federal elites interested in preserving centralized control over their regional counterparts. In addition to this important factor, I would like to stress that the causes must be found in the system of

intergovernmental relations that was written into the Russian Constitution in 1993 and has been in effect until the present time.

The theoretic basis for my analysis was developed by Tulia Falleti in her comprehensive investigation of the processes of decentralization in Latin American countries (Falleti, 2005, 2010). She proved that decentralization did not necessarily lead to increasing subnational authorities' autonomy.

According to Falleti, decentralization is "a process," "the set of policies, electoral reforms, or constitutional reforms that transfer responsibilities, resources, or authority from higher to lower levels of government" (Falleti, 2010: 34). Depending on what is being transferred, decentralization may include administrative aspects of intergovernmental relations (when responsibilities are delegated), fiscal aspects (where the regional level receives additional sources of subnational revenue), or political ones (the devolution of "political authority to subnational actors" and opening up "new spaces for the representation of subnational polities" (Falleti, 2010: 38)).

Each of these leads to different effects on the level of subnational autonomy: if political decentralization increases autonomy, then the effects of the other two types may vary. This conclusion is based on the consideration that delegation of responsibilities (administrative decentralization) without reliable sources of their financing (fiscal decentralization) makes regional actors very dependent on the central authorities, which control the volume of financial support and, consequently, the effectiveness of the regional governments' activity. Strengthening the fiscal power of the subnational level without political decentralization increases regions' autonomy insignificantly: the subnational authorities have more resources with which to realize their preferred policies, but only if those correspond with the national government's will.

Falleti distinguishes between decentralization initiated by the center (I will call this "top-down decentralization") and decentralization with the initial domination of the subnational level ("bottom-up decentralization"). It is clear that, within the framework of top-down decentralization, national policy-makers will seek to implement the delegation of administrative responsibilities and not go further down the path of decentralization, while bottom-up decentralization will begin with devolution of political power.

At the same time, decentralization is not a specific policy measure that is realized by one of two actors, the center or the regions; it is a process where delegation of responsibilities or authority is able to provoke a reaction from the other party in intergovernmental relations. Falleti highlights two possible types of such feedback—self-reinforcement by an active actor, and the reaction of an actor unsatisfied with the pattern followed by the process. In light of this, Table 4.1 demonstrates the paths and effects of decentralization scrutinized by Falleti.

Thus, there are several important starting points that can be useful in analyzing the causes of intergovernmental relations' outcomes. The specifics of the intergovernmental balance of power are a result of initial conditions modified by the reactions of both sides in intergovernmental relations during the process of reform. At the same time, I will include in this model the institutional

Table 4.1 Sequences of decentralization and their effects on the intergovernmental balance of power¹

<i>Prevailing interest in first move</i>	<i>First type of decentralization</i>	<i>Type of feedback mechanisms</i>	<i>Second type of decentralization</i>	<i>Third type of decentralization</i>	<i>Degree of change in the intergovernmental balance of power</i>
Subnational	P	Self-reinforcing	F	A	High
National	A	Self-reinforcing	F	P	Low
Subnational	P	Reactive	A	F	Medium/Low
National	A	Reactive	P	F	Medium
Tie	F	Reactive	A	P	Medium/Low
Tie	F	Self-reinforcing	P	A	High

Sources: Falletti, 2005, 2010.

Note

¹ Types of decentralization: A—administrative; F—financial; P—political.

frameworks that I believe also contribute to the results of this intergovernmental interplay.

At the beginning of the 2000s, such institutional frameworks were established by the Russian Constitution, which initially formed an extremely centralized territorial system.

There are three articles in the constitution that stipulate the two levels of governmental responsibility. Article 71 describes the Russian Federation's spheres of competence, i.e., the responsibilities of the federal authorities (see Appendix 5). This list includes issues of defense and security, foreign policy and administration of justice, as well as some other strategically important policies—nuclear energy, transport infrastructure, space activity, etc. At the same time, paragraph “e” (“f” in the English version) states that the federal center is allowed to establish “foundations of federal policy and federal programs in the spheres of state, economic, environmental, social, cultural and ethnic development of the Russian Federation.” It is obvious that this list covers most of the categories of public administration. So what issues can be left in the hands of subnational governments?

Article 72 involves so-called spheres of shared responsibilities of the federal center and subnational units. Within the Russian legal context, “shared responsibilities” mean that the federal center is able to establish legal frameworks within which the regional governments then make their own decisions (Lazareva, 2009). If the center does not regulate a sphere, the subnational level is allowed free rein within it in accordance with each region's laws. But as soon as the federation establishes its own norms within that sphere, the regions are obliged to bring their legislation in line with the federal. Thus the federal center *de facto* maintains a significant degree of control over these spheres of public administration.

Finally, Article 73 is devoted to the spheres of exclusive responsibility of the subnational units. It stipulates:

Beyond the jurisdiction of the Russian Federation and the responsibilities of the Russian Federation within the frameworks of spheres of shared responsibility of the Russian Federation and the subnational units of the Russian Federation, the subnational units of the Russian Federation possess full governmental power.

(Constitution, 1993)

Such a pattern of distribution of responsibilities within a federal state is not unique, although it is not encountered in classic federal states. For example, in the USA, the states implement a governmental responsibility if it is not included in the list of Congress's responsibilities. A similar institutional model can be found in the constitutions of Argentina, Australia, and Bosnia and Herzegovina. Canada's constitutional acts present two lists—the exclusive legislative competences of the federation and the exclusive legislative competences of the provinces. Finally, the Belgian Constitution lists the responsibilities of subnational units, while the federal government controls all other spheres of public administration. It is clear that, in

these examples of federal constitutions, the subnational level has either a fixed list of responsibilities guaranteed by the law or a short list of functions that may not be implemented by the regional governments—and all other functions belong to them.

At the same time, there exist models closer to the Russian principle of distribution of powers. The most similar example is Germany. Its basic law includes 11 spheres of federal responsibility and 23 spheres of so-called competitive responsibility. The Constitution of Austria has three lists of responsibilities—those implemented by the federation; those which are regulated by the federation, but implemented at the subnational level; and those regulated by the federation, but where the regional governments are able to specify the application of federal laws to regional particularities. By default, all other responsibilities remain at the subnational and local levels. In a similar fashion, the Brazilian Constitution delimits the responsibilities of the union, the shared responsibilities of the union and regional governments, and the spheres where the union is allowed to establish common legal frameworks and the units are able to specify their application in light of particular territorial features.

All three countries mentioned are known as centralized federations. Austria is often analyzed as a country with a unitary society but a federal style of government, “a federation without federalism” (Erk, 2004). The authors of the Brazilian Constitution dealt with many years of struggle between the union and strong regional elites (Zakharov, 2016). The German Constitution asserted a system of centralized policy-making and decentralized policy implementation (Benz, 1999).

The Russian case perfectly demonstrates how such a model of intergovernmental relations works. On the one hand, despite the many spheres of responsibility controlled by the central government, the regional authorities have found areas where they can express their power. Administration of subnational units’ property, formation of regional budgets, management of the budget process (including distribution of their own budgetary funds), establishing rules for holding regional referendums, the ability to establish official governmental positions in addition to the existing federal list of bureaucratic positions, and the ability to change the name of a subnational unit—all these and certain other functions are performed by the subnational authorities.

In the 1990s, due to the particularities of the political process described in Chapter 1, the federal center did not challenge the list of subnational competences, and even expanded it at the cost of federal responsibilities. But the experience of the 2000s demonstrates that even Article 73 does not enable the regional governments to realize their responsibilities independently from the federal center. At the end of the 1990s and at the beginning of the 2000s, the Russian Constitutional Court considered a set of cases initiated by the regional governments and assemblies regarding the interference of the federal center in public administration at the regional level, and the inclusion of governmental functions in regional or shared responsibilities. For instance, in 1998, the court confirmed the regional authorities’ right to regulate the process of holding local referendums. But in the same statement, the court added:

This does not mean that the regional and local authorities' discretion cannot be limited by the federal legislator in the interest of protecting the rights of the citizens in the sphere of local government and the basic principles of its organization in the Russian Federation.

(Postanovlenie, 1998)

Similarly, in 2004, the Constitutional Court agreed with the St Petersburg and Krasnoyarsk Krai authorities that subnational units have the right to manage their property and administer their budget processes autonomously. But, the court noted, the constitutional principle of unity of economic space demanded that the federal center should implement financial regulation that included budget issues (*Postanovlenie, 2004*).

In the 1990s, Article 72 was also interpreted in favor of the subnational level of government. In the bilateral agreements that were the main institution for regulating intergovernmental relations in that period, most spheres of public administration were delegated to the subnational units. The center de facto voluntarily surrendered its ability to restrict the subnational units' discretion in these spheres. But the center nevertheless possessed all the legal instruments necessary for controlling the responsibilities listed in Article 72, as was confirmed by the campaign to align the regional legislation with the federal in the beginning of the 2000s, when over two years the federal center radically changed legislation at the regional level.

Thus, when the list of the federal center's own regional responsibilities became extremely short and it was able to ensure its control over federal responsibilities, Article 72, the list of the shared responsibilities, became a space for changes in intergovernmental relations in the sphere of public administration. Vladimir Lysenko, deputy head of the State Committee on Issues of Federation and Nationalities (1992–1993) and member of the State Duma (1993–2003), remembered how the institution of shared responsibilities appeared in the Russian Constitution:

I remember that when we discussed the Federal Agreement in the Supreme Council, I acted categorically against Article 72 and said: "Let's work for another week, but we will not leave 40 spheres of shared responsibility." But people were in a hurry to sign it in the St George Hall in the Kremlin. That is why they unfortunately did not agree. And this "bomb" has been hanging over us for these last 10 years. Normally, we would have broken up Article 72, changed the Constitution, and there would be no problem.

(Stenogrammy, 2003)

There was no Article 72 in the Federal Agreement—Lysenko was referring to the articles on shared responsibilities, which had initially appeared in the agreement and were inherited by the constitution. But the important point is that, even at the beginning of the 1990s, some of the participants in constitution-building had noted that the institution of shared competences created a high level of uncertainty in the system of intergovernmental relations.

Kozak's Commission aimed to reduce the level of that uncertainty, to ensure a situation where every tier of government was responsible for the implementation of a clear list of functions. That task was part of the comprehensive administrative reform that involved the revision of the governmental agencies' responsibilities and their reassignment so as to pursue the best implementation of every function. At the same time, Kozak's proposals would have a significant political role—to overcome the effects of the uncontrolled decentralization of the 1990s.

As a result of intensive discussion, in 2003, the commission proposed a package of amendments for the federal law “On the General Principles of the Organization of Legislative (Representative) and Executive Bodies of the State Power of the Russian Federation's Subnational Units” (*Federal'nyi*, 1999). This law was adopted in 1999 and became a symbol of the increasing power of the federal government, which could formulate rules for institution-building at the regional level and push them through the parliament. All subsequent changes in the political and administrative autonomy of the subnational units were realized through amendments to this law.

The fact that the bill that specified the constitutional norms was proposed as an addition to the general federal law demonstrated that the president's administration considered the distribution of competences and responsibilities to be regulation of the functional obligations of authorities at different levels, part of the current administrative reform. In this respect, they did not see the distribution of responsibilities as having constitutional, state-building significance.

The discussion of the bill in the State Duma was not a simple one for the Kremlin. Indeed, it was the first example of public debate on the principles of intergovernmental relations in Russia.

The supporters of strong federalism focused on Kozak's Commission's suggestion of empowering the federal government to introduce so-called external financial management where a regional government admitted to exceeding the regional debt threshold by over 30 percent of its own budget revenues. Vladimir Lysenko referred to the experience of the majority of federal states to demonstrate that this norm did not correspond with the principles of the federal model. Dmitry Kozak replied that the institution of “external control” should be used if “the mechanism of the regional governments' political responsibility for the implementation of budget policy does not work” (*Stenogrammy*, 2003).

In turn, the supporters of strong central power opposed delegating many functions to the regional level. The responsibilities fiercely discussed in the State Duma were the regions' right to set the level of debt; social protection of families with children, orphans, and homeless children; targeted subsidies to the poor to cover communal bills; benefits for veterans; support of vocational schools; support for folk art and crafts; establishing norms of financing educational organizations in the regions; financial support for primary and secondary schools; financial support for agricultural production and housing utilities; and others.

Finally, one of the main points of disagreement between Kozak's Commission and the parliamentary opposition arose from the sequence of discussions of

responsibilities and financial resources. According to the opposition, a proper implementation of the delegated responsibilities would be possible only if the regions were given appropriate financial funds, yet the commission was not proposing the necessary amendments to the Budget Code and the Tax Code. Dmitry Kozak insisted that changes to the principles of fiscal federalism should come after the distribution of responsibilities.

In any case, the State Duma adopted the law, but the distribution of votes confirmed the existing split over the general vision of intergovernmental relations in Russia. The State Duma's Committee on the Issues of the Federation and Regional Policy supported the bill by nine votes to eight. In the State Duma, the bill was supported by the following factions and groups: Unity, Fatherland—All Russia, LDPR, People's Deputy, and Russia's Regions. The Communists, the Agroindustrial Deputy Group, Yabloko, and most of the members of the Union of Right Forces voted against the proposal.

Consideration of the bill by the Federation Council followed the same pattern. The Council's Committee on Regional Policy supported the proposals. At least two senators—Vyacheslav Novikov, representative of the Legislative Council of the Krasnoyarsk Krai, and Viktor Shudegov, representative of the government of the Republic of Udmurtia—stressed that this law was an attempt to change the constitution by amending federal law: "Radical reform of government, cardinal revision of the regions' responsibilities—there is no need to remind you that these should be realized by changing the Constitution" (Nagornykh, 2003). Dmitry Kozak reacted in an unexpected way: "The Constitution is how the legislator interprets it and how the court interprets it. The legislator interprets it in this way" (Nagornykh, 2003). Only nine members of the Federation Council voted against the law; seven senators abstained.

Thus, the Kremlin pushed the law through the parliament without much difficulty. In the lower chamber, it was supported by the pro-presidential majority that had formed by the end of that convocation (Remington, 2006), and which had already voted for Putin's first federal reform three years earlier. The support of the higher chamber came as a result of expelling the real political regional leaders from the Federation Council.

Kozak's Commission proposed the needed amendments to the Budget Code and the Tax Code before launching the new approach to intergovernmental relations, but their content and subsequent effects confirmed the opposition's fears. During the discussion of the law "On General Principles" in the State Duma, the Communist Party representative declared: "Regions will be delegated competences which cannot be realized without subsequent financial support. All the responsibility will be imposed on them. They will have to reproduce conditions of poverty, while the policy will be commanded by the center" (*Stenogrammy*, 2003).

The amendments proposed in 2004 are considered inconsistent. On the one hand, the federal governments addressed the problem of unfunded obligations that had flourished in the second half of the 1990s. During that period, the federal parliament had created new social obligations that were to be implemented at the subnational level without guaranteed financing from the federal

budget. Now, every obligation and responsibility was provided with a source of financing at one of the three levels of government. In addition, the new model of distribution of tax income was fixed by the Budget Code and the Tax Code, instead of a law on the budget for the next financial year. This led to the stabilization of the rules of the game in the financial aspect of intergovernmental relations (De Silva et al., 2009).

On the other hand, the new norms led to a situation where the volume of transfers from the federal budget to the regional and local ones increased while the volume of its own regional revenues dramatically decreased (Figure 4.1). In the following years, this ratio would never return to what it had been at the end of the 1990s.

Finally, all these changes had one more unexpected effect. As early as 2005 Vladimir Putin retold the numerous complaints of the governors in the following way:

I consider the position of many governors to be correct. It states that the number of the federal agencies in the regions is increasing constantly and unswervingly, but the quality of the job is not improving [...]. There is a mixing of functions and parallel activity, but when somebody needs to take responsibility, there is, on the contrary, a dropping and transferring of responsibility from one agency to another.

(Kolesnikov, 2005)

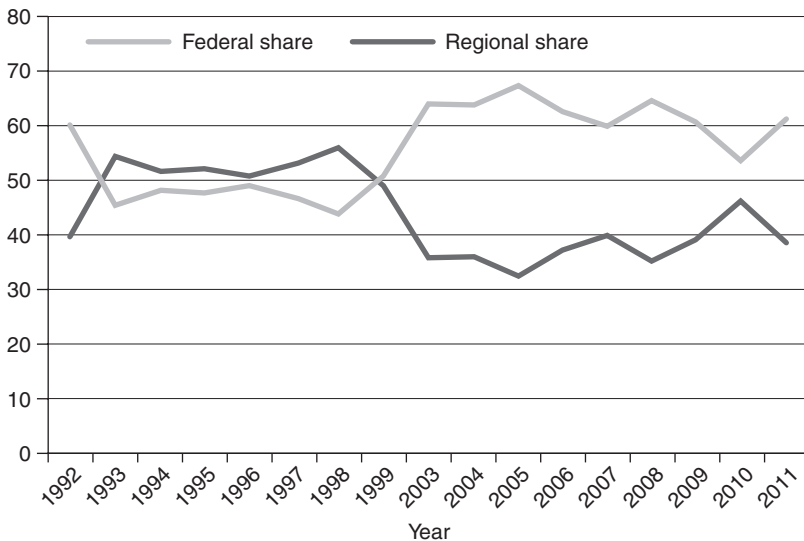


Figure 4.1 Ratio of federal and subnational budget revenues in the Russian Federation in 1992–2011.

Source: Author's calculations based on data from the Russian Federation's Federal Treasury ([www. roskozna.ru](http://www roskozna.ru)).

The official statistics on the number of federal and regional bureaucrats at the subnational level confirmed Putin's words (Figure 4.2). The period 2003–2005 saw a rapid increase in the number of federal officials at the regional level, and that increase paused only in 2010. In the next section I will analyze the role of those bureaucrats in the governmental system.

During the following years the federal center repeatedly changed individual parts of the system for assigning administrative responsibilities. Since 2003, the law “On General Principles” has been amended more than 100 times. But the established principles of intergovernmental relations have not changed.

In June 2011, Dmitry Medvedev, then the Russian President, declared a call for a new wave of decentralization:

It is impossible to govern a country from a single center in the modern world, especially if we are talking about a country such as Russia. Moreover, if everything starts working and moving based on signals from the Kremlin—and we have been there, I know this from my experience—that means that the system is non-viable, that it has to be arranged around a specific person. This is bad; it means that the system must be changed.

(Medvedev, 2011)

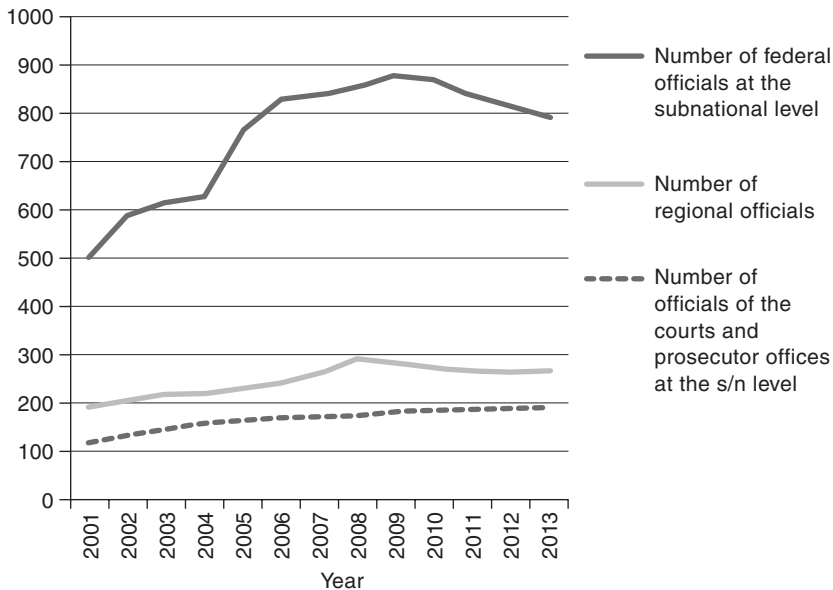


Figure 4.2 Number of officials at the national and subnational governmental levels in 2000–2013 (in thousands of people).

Source: Federal state statistics service (www.gks.ru).

To realize this political intent, two commissions were engaged. Kozak's Commission launched another revision of administrative responsibilities, while reassignment of sources of budget revenues was assigned to the so-called Khloponin's Commission.²

The results of this wave of decentralization were similar to those of its predecessor. The center delegated to the regional level a set of control responsibilities within the spheres of animal health and protection of plants, environmental protection, land management, meteorological and geodetic control, fire safety, and many other issues. The federal government sought to thereby decrease the number of federal officials in the regions, transferring them to the level of regional government. But the activity of Khloponin's Commission was *de facto* blocked by Vladimir Putin's team, and the regions could not receive additional resources to significantly increase their budget revenues.

Although Falleti's sequential theory of decentralization in its complete form cannot be applied to Russia (if only because Russia has not yet undergone all three phases of decentralization), her analysis is useful for understanding the nature of the Russian decentralization processes in the 2000s and 2010s.

The regional leaders were divided and disoriented as a result of losing the 1999 parliamentary election and of the growing popularity of Vladimir Putin's actions aimed at integrating the country. The federal center possessed all necessary means to promote its interests while it formed the new system of intergovernmental relations. Compared with the system that had appeared spontaneously in the 1990s, Kozak's program was seen as a process of governmental centralization (Petrov, 2000). However, that process should be interpreted more carefully. Taking into consideration that the constitution stipulated a centralized model of federalism and that the intergovernmental relations of the 1990s had significantly deviated from the constitutional model, Kozak's reform was the first case of administrative decentralization realized in accordance with the constitutional norms.

Falleti's idea presupposes that every new phase of decentralization is motivated by strong causes that force the actors of intergovernmental relations to move forward. In Russia's case, there was no real need to continue decentralization. Genuine fiscal decentralization had been replaced by fiscal centralization, the most profitable option for the central government, and by the simultaneous growth in intergovernmental transfers redistributed among the subnational budgets. The return of gubernatorial elections in 2012 did not become an opportunity to increase the regional communities' political autonomy. Due to the political regime that had formed by that time and had effectively established a system of political control over the regional governments, the federal center's influence on intraregional political and policy processes remained.

The process of reallocation of administrative responsibilities among the different governmental levels has continued until the present time. The federal government has held onto the position of the veto actor and technocratically amends laws to adjust the system of intergovernmental relations as appropriate. At this time, the governors act as obedient implementers of the federation's will; they

do not have agendas of their own, and do not initiate any great debates on the future of Russian federalism. As a result, Vladimir Putin continues to maximize his gains in the political field.

Anatomy of (de)centralization: evidence from the education system

In his historic speech at the special meeting of the Russian government, which took place after the Beslan tragedy, Vladimir Putin formulated his vision of the relationship between the federal and regional levels of government:

First of all, I believe that the most important factor in strengthening the state is the unity of the system of the executive in the country—the unity that derives from the meaning and the letter of Article 77 of the Constitution. Indeed, we are talking about the fact that within the framework of the Russian Federation’s responsibilities and the sphere of shared responsibilities, the executive in the center and the executives in the subnational units form a single system of power and, accordingly, have to work as a holistic, coordinated, united body.

(Putin, 2004)

The model of intergovernmental relations established during that period corresponded to the political interests of the ruling group. But the construction of the power vertical involved not only ensuring political control over the regional elites, but also improving collaboration between federal and regional authorities.

In order to assess the impact of the federal government’s regional policy on the particularities of governance, there is a need to analyze specific areas of public policy. These are located within the sphere of shared responsibilities of the federal center and the subnational units, which became a space for reallocation of powers during the Kozak reform. Among the many policy fields regulated by the Kozak reform the analysis should be devoted to those that involve significant financial and human resources, as that is where the effects of the changes in intergovernmental relations will be most visible to the observer.

All these requirements are best satisfied by education and healthcare—two policy fields that, due to the social orientation of the Russian state, have remained important objects of governmental attention (Table 4.2).

Tulia Falleti selected the education sector to measure administrative decentralization (Falleti, 2010). In addition to the fact that educational reforms are noticeable because they mobilize significant fiscal and human resources (and consequently, can lead to long-term and unexpected policy feedback for both other policy areas and the process of political struggle), she took into account that in Latin America education has often been the first decentralized policy field, and that this policy field involves influential trade unions that actively participate in bargaining concerning the redistribution of responsibilities and resources.

Table 4.2 Social expenditures of the Russian consolidated budget in 2005, 2010, and 2015 (in billion rubles)

<i>Category</i>	<i>2005</i>	<i>2010</i>	<i>2015</i>
All expenditures	2941.2	6636.9	9479.8
Education	628.6 (21.4%)	1450.9 (21.9%)	2472.5 (26.1%)
Health care	463.8 (15.8%)	796.8 (12%)	1355.8 (14.3%)
Social policy	336.0 (11.4%)	1167.3 (17.6%)	1497.1 (15.8%)

Source: Rosstat, 2016.

In Russia, education was not the first policy field to be decentralized. In addition, there were no significant trade unions of teachers or university professors that would have been able to protect the interests of education sector employees. At the same time, it is fair to say that any policy change in the Russian education sphere affects a tremendous number of people and significant volumes of money. By 2015, 14.5 million people were studying at pre-school organizations as well as primary and secondary schools, and nearly 700 000 at universities;³ almost 1.5 million people were working in educational organizations (Regiony, 2016). From the financial perspective, education is also the biggest area of social expenditure in Russia (Table 4.2). During the 2000s and 2010s, the federal government made an effort to greatly reform the education system. It is considered that, among all the reforms in the social sphere launched by Putin's government at the beginning of the 2000s, reforms of education policy were the most successful (Belanovskii et al., 2016). Finally, allocation of responsibilities in the educational sector became a real battleground during the discussion of Kozak's reform in the State Duma. This section will be devoted to the question of how education governance changed due to the transformation of intergovernmental relations.

Since the 1980s, there has been an active decentralization of the educational sector around the world, and this trend has covered not only federal but also unitary states. Noel McGinn and Susan Street highlighted three so-called "normative" goals of decentralization in education: (1) to improve the efficiency of administration, (2) to increase the effectiveness of the system, and (3) to increase local participation (McGinn and Street, 1986).

The first two goals are technocratic: they are aimed at building up the most effective models of public administration in a country. In the last 30 years, due to the development of new public management principles in the world, ones supported by different developmental institutes, decentralization of public administration has become a leading measure for increasing the performance of implementation of public policies. Because of the large number of educational institutions and their entrenchment in the social processes of cities and regions, educational systems were among the first to experience the process of redistribution of responsibility between levels of power, especially in the field of school education.

In their article, McGinn and Street observe: "Less clear is why the government – if it is distinct from (and somehow antithetical to) individual citizens – should want to increase citizen participation" (McGinn and Street, 1986: 473). It is reasonable that central governments are not inclined to delegate authority to regional and local communities without serious need. This is why the main motive for increasing local participation in the educational policy field is connected with the central government's need to avoid political conflict between the center and strong and disobedient regions.

It is not surprising that the federal system, where education is understood as a part of regional identity closely connected with a regional community's culture and language, is characterized by the decentralization of education and the provision of regional communities with special rights to influence decision-making in educational governance.

The simplest way to illustrate this point is to observe the numerous examples of ethnofederal states that were formed in accordance with the holding-together model. In Belgium, the decentralization of language, culture, and education became the first step toward complete federalization. Now the Belgian educational sector is mainly governed by the individual communities. The federal level controls only standards for such practices as establishing training periods, setting minimal requirements for diplomas, and providing pension insurance for retired teachers. Similar patterns can be found in Spain and India.

Equally, education is also decentralized in federal states that were not based on ethnic distinctions. In the United States, the states' governments and school districts regulate pre-school, school, and vocational education, while universities enjoy a significant level of autonomy.⁴ In Germany, the federal government's sphere of responsibility is limited to the ability to establish general frameworks in the field of university education, and all other responsibilities are assigned to the *Länder*. Even in Austria, one of the most centralized federal systems in the democratic world, education is strongly influenced by from municipal and regional governments.

There are noticeable differences between "technocratic" decentralization and decentralization aimed at strengthening regional participation. The first is often interpreted as a "top-down" process. The central governments are inclined to test different options for the assignment of responsibilities, and configure the system as they receive new information on its function and effects. Such an approach can be found particularly often in unitary systems, where the regional and local authorities are merely territorial departments of the central government, and the center's experiments do not face any resistance from regional communities or elites.

Decentralization aimed at ensuring the participation of the regional and local communities in creating education policy, on the other hand, is initiated as a "bottom-up" process. As a result of insistent demands from the subnational communities, and careful intergovernmental bargaining, this system tends to be stable and robust for a long period of time.

Thus, examining the process of redistribution of powers in a particular policy area allows us to understand much about the nature of intergovernmental

relations in a country. The following analysis of changes in the education system in Russia is useful in order to assess both the features of intergovernmental relations in Russia in the 2000s and 2010s, and the influence of the resulting model of territorial governance on public administration.

Designing intergovernmental relations in the education sphere involves questions about the allocation of responsibilities in respect to a variety of issues such as selecting the knowledge to be studied in schools, colleges, and universities, planning the number of educational organizations in a specific administrative unit, or providing financial support for schools in order to satisfy their utility and other needs. These tasks, among others, can be resolved at different levels of government or even left to the educational organizations themselves. Given this, there is a need to choose a few indicators that will suffice to characterize the level of decentralization of the whole system.

I follow Falleti's approach in selecting six indicators of policy-making authority that comprise (1) authority over the curriculum, (2) responsibility for training teachers, (3) responsibility for evaluation of the educational system, (4) management of schools, (5) authority over hiring, firing, and relocating teachers, and (6) authority over salaries. In addition, I will discuss one more responsibility: financing the needs of educational organizations at a given time.

An important feature of Russian educational governance has been its significant centralization. Since the Soviet period, it is the central government that has been establishing the standards that describe not only curricula at all levels of education, but also detailed technical requirements for licensing educational institutions.

The Russian Constitution assigns "general issues" of education to the sphere of shared competences of federal and regional governments. To understand what this means for the practice of public administration, I analyze three federal laws devoted to the assignment of responsibilities in the educational sector. The first—"On the General Principles of the Organization of Legislative (Representative) and Executive Bodies of the State Power of the Russian Federation's Subnational Units" (*Federal'nyi*, 1999)—has already been commented on in the previous section. In addition, special attention should be paid to laws that regulate the educational system. Since the beginning of the 1990s, there have been two such laws. The law "On Education" was adopted in 1992, revised twice in 1996 and 1997, and amended 80 times in the period from 2000 to 2012 (Zakon, 1992). In 2012, it was replaced by the new federal law "On Education in the Russian Federation" (*Federal'nyi*, 2012). To trace significant changes in the model of intergovernmental relations, I analyzed Chapter III of the 1992 law and Articles 6–9 of the 2012 law, the sections devoted to the distribution of responsibilities of federal, regional, and local agencies in the education sector.

The analysis of the changes to the 1992 law allows us to see how education governance is affected by the dynamics of federal relations. In 1992, a time of uncontrolled growth for the republics' influence, the national government provided them with the right to "create and implement policy in the field of education." There was certainly a note that the policy should not contradict federal

legislation, but the norms of federal regulation in that period were not very strict. In 1996, a period of increasing influence for other types of subnational units, this right was spread to all regions. But in 2006, soon after gubernatorial elections were eliminated, the federation deprived all subnational units of the ability to establish policy; instead, they became implementers of federal policy.

The same tendency has been reproduced in *federal authority over the curriculum*. At present, the federal government sets federal educational standards for almost all types of educational organizations, from pre-school to postgraduate levels. But in the 1990s, the law allowed regional governments to allocate 10 percent of study time to disciplines established by subnational units. After 2007, the so-called “regional component” was abolished: the federal government took control of all standards. In 2009, this abolition was mitigated: the subnational units obtained permission to “participate in developing sample educational programs so as to take into account regional, ethnic and cultural particularities of the territories.”

The federal government’s role in the field of education content is crucial. It controls the process for selecting textbooks authorized to be used as official study materials in educational institutions and establishes the official list of publishing houses allowed to produce these textbooks. The regions’ role is restricted to the ability, which was granted in 2011, to participate in the process of selecting textbooks devoted to native languages and native literature.

Complete control over the content of education is ensured not only by setting the standards, but also by retaining *influence over the training of teachers*. This indicator of decentralization has not changed during the whole period: since 1992, the federal government has been responsible for creating and managing the teacher training system and providing means for university professors to improve their qualifications. The subnational units are responsible for implementation of the procedures set by the center.

The centralized system of curriculum creation complements a decentralized model of the *management of educational institutions*. There is a general principle in Russia whereby the federal government manages universities while regional governments are responsible for colleges, and municipalities for schools and pre-school institutions. At the same time, there are exceptions. For instance, the colleges that implement educational programs in the sphere of security and defense are subordinated to the federal Ministry of Education. The regions and even some types of municipalities are allowed to establish universities and subsequently manage them. But, on the whole, the system of correspondence of levels of educational institutions to levels of territorial governance was founded in the early 1990s and has been in effect since.

Consequently, this is also true for the distribution of *authority over hiring, firing, and relocation of teachers and professors*. The federal legislation establishes the general requirements for appropriate qualifications of educational institution employees, but their implementation is delegated to the level responsible for the institution’s management.

The four indicators discussed above show the increased strength of the federal center in preserving the status quo in intergovernmental relations in the 2000s

compared with the 1990s. The next two indicators—*allocation of financial responsibilities* and the function of *mechanisms of control and evaluation*—will demonstrate the changes made by Kozak's reform.

Before 2004, public funding of education conformed to the principle of co-financing: the expenses of educational institutions at any given level of education were reimbursed from multiple budgets. For instance, at the level of general school education, municipalities were responsible for financing schoolteachers' salaries, teaching materials, and schools' communal needs. The federal government was responsible for providing library funds, repairing buildings, purchasing equipment, etc. Most of the financing of vocational colleges came from regional budgets, while universities were financed mainly from the federal budget (Abankina et al., 2005). At the same time, the fact that all educational institutions in Russia were co-financed from the federal budget, together with the influence of the federal center on the standards of labor remuneration and other expenses, preserved the significant role of the federal center within the educational system.

Kozak's reform tremendously increased the significance of the subnational units. It delegated the responsibility for financing all educational institutions except federal ones to the regional budgets and deprived municipal authorities of those competences.⁵ This also affected the rules for setting salaries for teachers. Now, the federation only established standards for teachers' remuneration for federal educational organizations.

The declared refusal by the federal center to participate in financing the majority of educational institutions provoked serious discussion in the professional community, which demanded the establishment of federal standards for financing education across the whole country. The purpose of such a standard would be to ensure equality in providing educational services in all Russian regions.

During discussion of Kozak's reform in the State Duma, a group of deputies headed by Oleg Smolin suggested amending the bill and introducing the notion of federal standards of financing:

The right to education is guaranteed for all Russian citizens, regardless of where they live. The right to education is guaranteed by the Constitution, among other things, by the Presidential Address of 2001, and by the establishment of the federal state standard. If we set the standard for education and guarantee the right to education for people, how can this be done without money? How are you imagining it? And there will be twenty times more in Moscow [...]. Well, not twenty, of course, but fifteen times more than in Mountain Altai. We are not demanding a reduction in [financing] in Moscow, we are asking that the whole country's educational funding does not fall below a certain level, otherwise there is no federation.

(Stenogrammy, 2003)

Dmitry Kozak objected to this suggestion because "it contradicts the federative nature of our state, and it does not allow for the construction of transparent

interbudgetary relations between the subnational units and the federal center.” In this and many other debates on the necessary level of centralization, the federal government acted as the main supporter and defender of federalism. Meanwhile, it was clear that this understanding of federalism was reduced to issues of the implementation of policy measures by the regional governments, and not to the actual devolution of educational policy-making to the regions. The center’s approach was technocratic: in 2010, the federal standards called for by the opposition in 2003 were introduced as a part of federal control over the implementation of educational policy when the previous model showed such negative results as disparity in the provision of educational services in the Russian regions.

Another important point of confrontation between the Presidential Administration and the parliamentary opposition during the debates over Kozak’s reform came from a lack of understanding of how the subnational governments would manage their new financial responsibilities. The State Duma’s deputies explicitly questioned the federal government’s plans to strengthen the fiscal power of the regions. Kozak’s laws could lead to the implementation of a strategy of unfunded redistribution of responsibilities, where the delegation of new governmental functions would not be accompanied by transfer of new sources of replenishment to regional budgets. One often encounters such situations: the central authorities seek to rid themselves of the obligation to finance a sphere of public administration, or implement a policy of cuts and austerity via the hands of the regional governments (Agrawal and Ribot, 1999; Falletti, 2010).

Figure 4.1 shows that there was no significant increase in the revenues of the regional authorities in the 2000s: a major fall that began in 2000 was replaced by minor growth in 2006 and 2007, and then a more promising increase in 2009 and 2010, but the revenues never returned to the level of the 1990s. In turn, the expenditures in the field of education in the 2000s and 2010s have likewise demonstrated no significant increase in the financial role of regional governments compared with the federal center (Figure 4.3).

However, the redistribution of powers did not become an example of unfunded decentralization. The regional governments received the resources they needed from two sources. The first was the local governments that had been deprived of the majority of responsibilities in the sphere of financing the education system. Figure 4.4 demonstrates the massive redistribution of educational expenditures from local authorities to regional ones, with an appropriate redistribution of a number of financial sources. The second source was the intergovernmental transfers that became a key element of regional development policy in the 2000s.

Having delegated the right to manage most educational organizations to the regional level, the federal government increased pressure on regional authorities to force them to realize measures aimed at the reduction of expenditures, including social ones. The reform that involved restructuring the secondary school network is an indicative example (Starodubtsev, 2017). The federal Ministry of Education initiated it as an extension of implementing the per capita financing

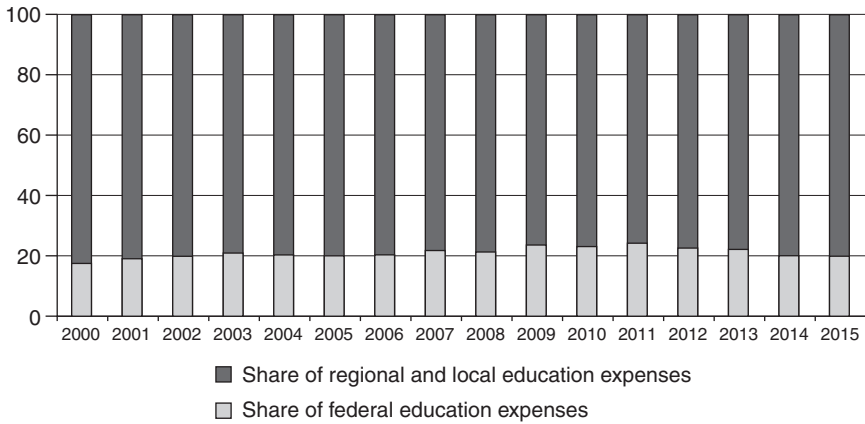


Figure 4.3 Dynamics of allocation of expenses in the field of education in 2000–2015.

Source: Author's calculations based on data from the Russian Federation's Federal Treasury ([www. roskazna.ru/](http://www roskazna.ru/)).

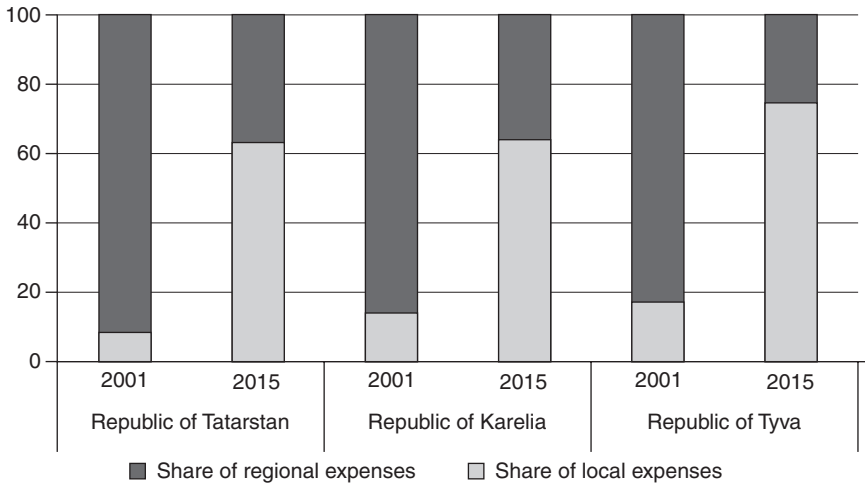


Figure 4.4 Dynamics of change in expenses for education in three Russian republics in 2001 and 2015.

Source: Author's calculations based on data from the Russian Federation's Federal Treasury (www. roskazna.ru/).

principle, which tied the amount of financial resources received by a school to the number of students. Now the federal government agreed to integrate schools with a small number of students with schools located in neighboring settlements. But the implementation of that reform was delegated to the regional governments,

which had to select means and methods for increasing the effectiveness of the educational sphere in their regions.

The model of educational governance in Russia is close to those of contemporary unitary systems. It includes the omnipotent national government that has the position of veto actor in the policy-making area, and political and financial resources to control the implementation of its policy decisions. In this model, regional governments play an important role as territorial departments of the central government. They have been delegated a large number of functions, and from the perspective of the system's effective operation, the regional governments are key actors making the most important administrative decisions. However, their discretion is substantially restricted by the scope set by the federal legislator, which is based on its own ideas of the desired and most effective degree of autonomy of the implementers in a policy field. The role of local governments in such a system is minimized. They have no administrative autonomy, and their main task is the fulfillment of the requirements of the federal and regional governments.

A system that combines centralized policy-making with decentralized policy implementation raises an important question—how can the national government's control over implementers be ensured so as to achieve the most positive outcomes for public administration? A large and decentralized bureaucracy *a priori* generates a risk of losing the loyalty and obedience of lower-level officials. A vast territory, many subnational units, the existence of ethnic, religious, and even societal conflicts—all these features of the Russian state and society create a risk of the center losing control over the regional authorities (Prud'homme, 1995; Treisman, 2007).

Thus, the model of territorial governance established by Vladimir Putin's team aggravates the principal–agency problem. The principal–agency model is used to analyze relationships between assemblies and executives (Weingast and Moran, 1983; Weingast, 1984; McCubbins and Schwartz, 1984; McCubbins et al., 1989; Miller, 2005), but several authors (for instance, De Groot, 1988; Dehousse, 2008; Ferris, 1992; Tommasi and Weinschelbaum, 2007; Sharafutdinova, 2010; Busygina and Filippov, 2012) find it useful for discussion of the problems faced by national governments when they implement a policy of governmental decentralization. The question is, how can the center delegate significant responsibilities without losing control over the results of the subnational governments' activity?

The content of principal–agency theory is well known (if not, see a most interesting explanation presented in the introduction to Shapiro, 2005), but there is still a need to relate the possibility of principal–agency problems to the relationship between the central and lower levels of government, especially with respect to federal states. The principal, unable to cope with the management of a complex system, decides to delegate some of its authority to an agent, who must normatively follow the principal's will and ensure for it the best results of its activities. However, there are two obstacles that can disrupt this ideal model of relations. The first is that the agents have much more information about their

abilities, the activities that they produce, and the true quality of the results of their labor, than the principal. The second obstacle arises when the interests and preferences of the agents diverge from the interests and preferences of the principal. Together, these obstacles provide all the conditions for so-called agency loss, when the agent fails to perform the functions that were delegated in order to achieve the goals set by the principal.

Decentralization is one case of such delegation of functions that causes an agency problem. Here, subnational governments are responsible for realizing functions that are important to the central politicians (for example, social policy, social security, education, etc.). A national government delegates these competences to the subnational level because it suffers from information asymmetry, since it cannot control the situation in the regions completely. At the same time, the center seeks to control subnational actions, but cannot do so successfully because of the high costs of such a control system. It dominates in relations with subnational governments, and offers and formulates a contract between it and them. But there is a dramatic asymmetry in the center's and the regional governments' preferences. At the ideological level, while the former is concerned with the socio-economic development of the whole country, the latter are responsible for specific regions. In opportunistic terms, central and regional officials as opportunistic actors have rent-seeking strategies that concern different territorial interests and often conflict with each other. That is why the central government accepts the autonomy of the subnational governments' preferences and the need to provide subnational officials with incentives and control mechanisms to guarantee the agents' credible commitment.

At first glance, federal relations do not seem to be a good example of the principal–agency problem. In its classical understanding, federalism presupposes elections of regional authorities autonomously from the federal center, and the existence of their own responsibilities independent of the center. However, even without discussing the arguments for the use of agency theory in the analysis of federal relations, one can agree that the Russian case fully matches the “canonical” assumptions of that theory, since it presents a delegation of functions initiated by the federal center and controlled by it.

In addition, since the point when its canonical version was codified, agency theory has undergone a serious transformation. First, many studies have demonstrated that it is not rare in political processes for a single agent to have to interact with several principals simultaneously (Moe, 1984, 1987; Spiller, 1990). From this perspective, governors and regional executives seem to be excellent examples of agents that have to be subordinated to two principals (the federal president and the regional community) at once.

The need to ensure control over agents is a key element of agency theory. The bulk of literature devoted to the principal–agency problem's implications for relations between legislators and executives proposes two models for providing control mechanisms. According to the first (“police patrol”), the principal creates a centralized system that involves special organizations responsible for observing the agents' behavior. This model implies strict regulation of the agents'

activity and their being rewarded for successful achievement of the principal's goals. The second ("fire alarm") transfers responsibility for control of the agents' activities to target groups that possess all the information about the results of the agents' performance. This requires institutions that allow the target group to keep the principal informed of the efficiency of the agents' activities. Such a system is characterized by decentralization, and in its most radical version it allows the target groups to select the agents independently from the principal.

The realization of the "police patrol" strategy leads to a paradoxical situation: the establishment of additional supervisory agencies reinforces the agency problem instead of solving it. The "controllers" become new agents; for the principal, it is no easier to establish control over both them and the original agents. In addition, it is very expensive to form a system with several levels of control. This is why the "police patrol" is a pernicious strategy that leads to a low level of effectiveness of the entire administration apparatus. The "fire alarm," on the contrary, works as a self-regulating model; it includes mechanisms for representation of interests and allows recipients of public services to influence the process of public policy.

Within the system of territorial governance, the "police patrol" strategy means creating special territorially based "watchdogs" subordinated directly to the central government. Here, complete control is possible only in the presence of strict regulations. The realization of such a model in its radical form means the creation of a politically unitary state, where the central government is forced to decentralize the governmental system, and consequently this decentralization is implemented as a transfer of rights to implement decisions from the higher level to the lower.

The "fire alarm" strategy involves the transfer of control of regional governments to the regional community, which can be named the target group for the regional authorities' work. In this case, either the personnel decisions of the center should be based on the opinions of the regional community, or citizens should have the right to independently determine the leadership of regional authorities. Either way, it means the formation of political autonomy for the respective regions. Such a system of intergovernmental relations would be characterized at least by a high degree of political decentralization, and in its ultimate version by federalism, i.e., transferring the right to make final decisions in a policy field to the subnational level. Thus, the "fire alarm" is not only a less costly strategy, but, from a long-term perspective, more flexible in responding to crises.

The Russian model of intergovernmental relations is a case of the "police patrol" strategy. In education, the federal government seeks to control all operational processes: licensing and accreditation of all educational organizations in the country, final exams in secondary schools and vocational colleges, admission processes in colleges and universities, certification of teachers and professors of public educational organizations, and many other processes in the educational sector.

Before Kozak's reform, the federal government was responsible for supervising all educational institutions, but in 2005–2006 all control and supervision

responsibilities concerning educational organizations and programs implemented in the territories of subnational units were delegated to the regional ministries of education.⁶ The federal center reserved exclusive control only over federal universities, foreign educational organizations, and military educational programs.

This decentralization of control responsibilities demanded control mechanisms that would oversee the regional governments' activity in this sphere. The "fire alarm" strategy was eliminated as an option at the same time as Kozak's reform was being implemented. The president rejected direct gubernatorial elections and began actively developing authoritarian practices of government, thereby abandoning reliance on institutions of accountability. Under those circumstances, the only option for the federal center was the formation of a "police patrol" system that led to the creation of numerous "watchdogs" in the educational sector.

The main governmental bodies responsible for education policy at the federal level in Russia are the Ministry of Education and the Federal Service for Supervision in Education and Science (Rosobrnadzor). The ministry is responsible for creating frameworks for educational policy while Rosobrnadzor ensures the implementation of federal norms in universities and other educational organizations subordinated directly to the federal government, and controls the actions of regional governments in the sphere of education.

It is significant that the federal center did not surrender its right to control education in favor of regional governments. Instead, it has included control functions in the group of "responsibilities of the Russian Federation in the sphere of education whose implementation is delegated to the subnational units' executive agencies" (*Federal'nyi*, 2012). At the regional level, a structure similar to the federal one has been reproduced. In addition to the regional ministry of education, there is a special supervisory department in every region. In spite of the fact that this department is part of the regional ministry, it is financed by the federal budget and its chair is appointed in coordination with the federal authorities. The regional supervisory agency is responsible for monitoring the educational organizations subordinated to the regional government, and for the activities of municipal authorities in the field of education.

It is noteworthy that similar control functions have also been realized by the Prosecutor General's Office of the Russian Federation and its territorial units, by the Federal Service for Financial and Budgetary Supervision of the Russian Federation (which existed from 2004 to 2016) and its territorial subdivisions, by the Accounts Chamber of the Russian Federation, and even by the Control Office of the President of the Russian Federation.

The system of top-down control operates only under conditions of strict regulation of the activities of educational organizations. As a result, it takes the form of the production of many reports, both at each level of government and directly by the educational institutions themselves. In 2015, Vyacheslav Nikonov, the Chairperson of the State Duma's Committee on Education and Science, described how many reports had to be submitted by teachers and administrators of educational organizations (Nikonov, n.d.). According to him, secondary

schools prepare up to 300 reports per year, which include 15,000 indicators. Pedagogical staff members write 80 percent of them. Such reports include data on the midterm results of academic performance, many kinds of teaching plans, reports on the introduction of new technologies in the educational process, etc. A large number of reports are related to the achievement of targets set by the decrees of the Russian President, and fulfillment of the terms under which the Federal Government grants subsidies to the subnational governments. Even after the implementation of federal programs aimed at the development of the education system, the modernization of Russian schools, and the development of the pre-school education system, school administrators as well as municipal and regional educational authorities have to submit reports to higher governmental levels.

The large number of mechanisms and channels of federal control over the activities of regional and municipal authorities has not provided the center with sufficient information on how effectively regional governments work. In this regard, soon after the cancellation of gubernatorial elections (in 2007), the Presidential Administration decided to create a special methodology for measuring the performance of regional governments, which has been in place ever since. In the system of territorial governance that has now developed, socio-economic statistics, along with public opinion polls and electoral results, have become an important instrument for monitoring and evaluation (and this is not limited to the education system).

The history of changes in the federal center's approaches to measuring regional governments' performance demonstrates the problems the center faces when it attempts to control the outcomes of regional governments' activity. The first version of the methodology included 43 indicators that measured the level of regional development in many sectors (economy, demographics, healthcare, education, housing, ethnic relations, etc.) In fact, there were more than 43 indicators because each of them was split into several subcategories (for instance, the mortality rate was to be calculated for children from one to four years, from five to nine years, from ten to 14 years, and so on).

The proposed methodology for assessment came under serious criticism from experts and regional officials. Such a large number of closely related indicators did not allow the federal government to assess the importance of each of them to generate a final assessment of the performance of regional authorities. Another problem was organizational: the regional units of the federal statistical agency have been closely related to the regional governments, and, consequently, the quality of statistics was called into question.

In 2012, all these problems made the Presidential Administration change the composition of the indicators, reducing them to 12 obligatory indicators (Appendix 6). At the same time, to assess the individual development of each region, the federal government could choose two indicators from an additional list of 44 indicators that covered all mentioned policy fields as well as others.

The introduction of the first version of the assessment methodology became a cruel joke when it came to Roskomnadzor's work to control the institutions of

secondary education. As one indicator, the methodology presented the average result of the Unified State Examination in the previous year in a given region. The introduction of the Unified State Exam was aimed at ensuring the unity of the educational space in Russia and a decrease in the school teachers' and administrators' discretion in the process of final examinations (Starodubtsev, 2017). The need to account for the results of the exam led to unjustifiably high results in several regions. The regional governments demonstrated the ability to influence the reported statistics at their discretion. As soon as this indicator was removed from the methodology, the level of the results of the Unified State Examination in the subnational units evened out. At the same time, several years in a row, variants of the examination tasks appeared on the Internet shortly before the examination, and the media reported on mass violations in how the examinations were conducted.

Another example of the ineffectiveness of the established control system, even with issues of fundamental importance to the federal center, is the ban on schoolchildren wearing hijabs. In 2015, the Supreme Court of the Russian Federation recognized as legal the ban on wearing hijabs in schools in certain regions of the Russian Federation (for example, in the Republic of Mordovia). In spite of this, in some Muslim regions of Russia, wearing hijabs is either allowed (for example, in the Republic of Tatarstan) or obligatory (the Republic of Chechnya). Thus, some regions demonstrate their ability to ignore federal norms even under conditions where they are not able to influence the decision-making process at the federal level.

The analysis of the intergovernmental dimension of Russian educational governance shows how the dynamics of intergovernmental relations described in the previous chapters led to the creation of a monstrous system of formation and implementation of public policy in the 2000s. The model of centralized decision-making with decentralized policy implementation that exists in some federal and many unitary countries has, in the Russian context, resulted in significant growth of the central governmental apparatus. This has created a large number of supervisory agencies and channels, and their subsequent poor performance, as they have to be managed by the government and are buried under an avalanche of paperwork and fear of superiors and supervisors. The system as it is now struggles with the principal-agent problem and at the same time paradoxically reproduces it at a more advanced level. However, it is reasonable to argue that a reform of the system is a task that can hardly be accomplished by a new round of changes in administrative rules, because its formation was a logical result of a combination of institutional features of intergovernmental relations laid down in the early 1990s and the federal government's strategic behavior aimed at reducing the influence and power of regional elites.

First, the current governance system is based on the constitutional norm on the existence of shared responsibilities of federal and regional authorities. This is the main institution that provides regional governments with the possibility of administrative autonomy, although the federal government is at all times able to intervene in the decision-making process. The model of federalism stipulated by

the constitution is characterized by a strong central authority that is able to control the boundaries of the subnational units' autonomy.

Second, the system has been the product of a particular reform developed and promoted by Dmitry Kozak, Vladimir Putin's authorized representative. This reform for the first time clearly assigned the responsibilities of federal, regional, and local governments in the field of shared competences, while preserving the federal government's influence in a number of areas of public policy. At the same time, the federal government has consistently implemented measures to promote financial and political centralization.

Third, the formation of the system took place in the context of the development of an authoritarian regime that persistently destroyed institutions of social control and, as a result, made it impossible to implement at least some of the elements of the "fire alarm" strategy.

Notes

- 1 Dmitry Kozak was deputy head (2000–2003) and first deputy head (2003–2004) of the Russian President's administration, head of staff of the Russian government (2004), plenipotentiary representative of the Russian President in the South Federal District (2004–2007), and minister for regional development (2007–2008). Since 2008, he has been deputy head of the Russian government.
- 2 The commission was named in honour of Alexander Khloponin, deputy head of the Russian government (since 2010) and plenipotentiary representative of the Russian President in the North-Caucasian federal district (2010–2014) who was in charge of the activity of that commission.
- 3 Hereafter I use the term "schools" for all educational organizations that provide primary and secondary education, "colleges" for those institutions that offer primary and secondary vocational programs, and "universities" for organizations that provide undergraduate, graduate, and postgraduate education.
- 4 The United States government has made several attempts to establish federal control over school education so as to equalize the quality of educational services in different corners of the country. But with few exceptions, these attempts have always faced fierce resistance from the subnational elites.
- 5 A partial rollback took place in 2012: municipalities were forced to provide the financing for pre-school education.
- 6 In various regions of Russia, executive authorities responsible for educational policy can have different names—ministries, committees, etc. Hereinafter, I will use the term "regional ministry," meaning any agency that is part of the regional government.

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Conclusion

Traditionally, in political science a national government's policy toward subnational units ("territorial governance") is analyzed through the lens of models of vertical distribution of power. There, researchers juxtapose federal states with unitary ones. They focus their attention either on legal issues of redistribution of competences and responsibilities among different governmental tiers or on political struggles between national and subnational governments for control over decision-making. At the same time, the issues of subnational units' social and economic development, and national public policy aimed at regional development, have stayed beyond the scope of analysis by political science or been treated as factors that contribute to understanding "political" processes (i.e., ones concerning struggles for political positions). But a national government's territorial governance combines both politics and policy in its relations with lower governmental levels. The political interests of both sides' actors undoubtedly influence their policy decisions, while said decisions are able to constrain or influence strategic moves in the political sphere.

Fortunately, in the last half-century, political science has been demonstrating a shift toward studying public administration and public policy. New theoretical tools, together with classic political science methodology, have allowed political scientists to describe and explain governmental actions aimed at achieving policy goals. In this way, national governments' actions in the sphere of public management have been successfully integrated into political analysis.

It is very useful to analyze intergovernmental relations as a number of policies instead of thinking about them from the position of normative models of vertical distribution of power. Today, when an increasing number of states are decentralizing their systems of government, the distinction between unitary and federal states is disappearing, and its analytical utility is declining. Federal and unitary models have become ideal types that describe tendencies in the development of intergovernmental relations, but they do not explain how such states function.

In my book, I have defined intergovernmental relations more broadly than Dail S. Wright (1978) does. Wright insists that intergovernmental relations concern only federal systems, since federalism empowers their lower tiers. I believe that the modern model of government, where a level of decentralization is an integral characteristic of a policy system, allows us to apply the term "intergovernmental relations" to unitary states as well. A way to operationalize this term

is to assess the level of all types of decentralization in a state—administrative, political, and fiscal. A wealth of literature shows that these types can develop in contrary directions. Thus, a state's model of intergovernmental relations is a complex of institutions that constitute relations within each of these spheres.

My central thesis is that Russian intergovernmental relations have been affected by the phenomenon of political uncertainty as it is produced in authoritarian states. Under the conditions of consolidated electoral authoritarianism, Russian political leaders suffer from three types of uncertainty—uncertainty of outcomes as well as institutional and informational types of uncertainty.

The territorial dimension of Russian politics has had tremendous significance for the functioning of the political regime. For Vladimir Putin, regional political elites have always been a source of potential threat. They have been able to increase all types of uncertainty, as they demonstrated in the 1990s. During that period, the federal center's economic and political weakness led to a situation where the Kremlin was held hostage by politically strong regional leaders, who successfully used authoritarian practices to control their populations, especially during electoral campaigns. The well-known bargain of "the regional leaders' loyalty in exchange for their significant autonomy" could not work for long. It was a forced agreement that was able to continue as long as neither side had enough resources to revise the terms. The regional leaders openly challenged the Kremlin in the 1999 parliamentary elections. Suddenly, the old political struggle between the liberal government and the communist opposition made way for electoral competition between the federal center and the regional leaders.

Since the conflict between the federal center and the regional governments is a distributive one, it is impossible to resolve it permanently. The governors are always a threat to the federal politicians, who have to use all possible means to neutralize the potential danger. Thus, it is not surprising that the centralization of intergovernmental relations became the first political goal that Vladimir Putin decided to achieve upon his election as the Russian President.

His politics acted in three fields, which corresponded to three types of decentralization—administrative, political, and financial (fiscal).

In the field of political decentralization, the Kremlin has demonstrated itself as a strategic institution-maker, one able to build an institutional environment favorable for decreasing the potential for challenges from regional leaders.

Initially, the president achieved a reduction of the governors' influence on decision-making at the federal level. In the 1990s, regional leaders had successfully used formal and informal channels of subnational unit representation to protect regional interests at the federal level. The formal channels became the first victims of the new policy. The changes in the recruitment of the members of the Federation Council, the rejection of single-member districts in the State Duma's deputy elections, and the rejection of bilateral agreements with subnational units—all these measures allowed Vladimir Putin to weaken the regional leaders' political influence at the federal level.

The second step was the Kremlin's control over political processes at the regional level. In the early 2000s, the center's political power was based on

Vladimir Putin's unprecedented popularity, which allowed the Kremlin to ignore the governors as a source of electoral votes. But the situation could change, and the federal center did not want to return to a state of dependence on regional leaders. Furthermore, the governors demonstrated their ability to take advantage of institutions to preserve their control over regional assemblies in a situation where all leading parties were centralized. With its legislative initiatives, the Kremlin established the United Russia party's control over the regional assemblies. As a result, the subnational units' executives were faced with a potential alternative regional actor that could complicate a governor's control over a region. Finally, the regional leaders' autonomy was eliminated by the measure that transferred the right to appoint them to the president.

Simultaneously, the center used the mechanisms of administrative decentralization to demonstrate a will to support federalism in Russia (especially after the rejection of popular gubernatorial elections) on the one hand, and to strengthen control over public administration at the regional level on the other. The process of delimitation of responsibilities revealed the astonishing fact that the Russian Constitution had established a very centralized federation. In the 1990s, bilateral agreements had violated constitutional norms and delegated federal responsibilities to the regional governments. In the 2000s, the institution of shared responsibilities of the federal and regional governments provided the federal center with the opportunity to distribute competences without reference to subnational units' interests and their capability to implement such competences in the most appropriate way.

The key element of this redistribution became the so-called "federal responsibilities delegated to the regional governments," which allowed the center to establish direct control over the regional governments' daily activity. As I demonstrate, this practice became a way to enslave the regional agencies, turning them into regional departments of the federal government.

Another form this control took was the fiscal centralization that happened in the 2000s. Compared with the 1990s, when subnational governments often received the right to use financial resources at their discretion, the period of recentralization multiplied the proportion of finances transferred to the regions that was controlled by the federal government. At the same time, the regional budgets saw a decrease in the volume of financial resources stemming from regional sources. As a result, on the one hand, Russian governors have suffered from a lack of finances to develop their own policy agendas without the federal center's approval. On the other hand, the federal government has enjoyed the opportunity to accuse regional officials of violating the rules on spending federal funds.

These means of federal control are aimed at decreasing the level of informational asymmetry within the Russian political system. In order to have a low level of institutional uncertainty, the Kremlin blocked opportunities to realize the "fire alarm" model of control. As a result, it had to spend a lot of money to establish an effective system of police control over the regional governments.

At the same time, this control system completely depends on the Russian President, who is the only actor able to make decisions concerning the fate of any

governor suspected of corruption or even more serious crimes. Therefore, these control mechanisms are clumsy and ineffective—as they carry large costs, the country continues to suffer from extremely poor public administration at the regional level.

Under the regime of competitive authoritarianism, elections continue to be a source of uncertainty of outcomes. This fact explains the active use of federal budgetary funds in political interests. The analysis of intergovernmental transfers demonstrates that the influence of political factors depends on the level of political competitiveness and the level of uncertainty of results in the political system. The annual redistribution of transfers is affected by the logic of the political business cycle. A traditional reading of this principle links public policy, which the government provides, with the electorate's attitudes and preferences. In the context of studying intergovernmental relations, I explain the observed results in another way: in given circumstances, regional governments are responsible for achieving needed electoral results. The center is ready to spend money to decrease the uncertainty of outcomes, but this fact does not mean that governors once again receive political control over the federal center the way they did in the 1990s. The regional governments lose this advantage as soon as the electoral campaign period ends.

All these pieces of evidence allow me to conclude that territorial governance in the Russian Federation of the 2000s and the 2010s is an example of the authoritarian leaders' struggle with increasing uncertainty. Vladimir Putin and his team are strategic actors who skillfully make institutional changes (including centralization and decentralization in different fields of public administration) to neutralize regional elites as possible political challengers. The political and administrative decentralizations of 2012 confirm this conclusion. The established model of federal control over the regional governments and the well-functioning system of authoritarian institutions have allowed the return of popular gubernatorial elections. The center has the needed safeguards to protect itself from a real opposition victory. At the same time, no one governor can be successful without the federal government's support. The new wave of administrative decentralization has loaded the subnational units with additional responsibilities that cannot be fulfilled without federal financing.

Thus, authoritarianism in Russia demonstrates excellent results in addressing the problem of political uncertainty in the field of intergovernmental relations. Driven by this task, the authoritarian leader has eliminated any manifestations of regional autonomy. To handle the information asymmetry inherent in the structure of government in such a large and complex country, he has created a vast control mechanism. Consequently, the intergovernmental relations in Russia brilliantly support Vladimir Putin's political survival. Yet they are not designed to effectively develop economic and social well-being in Russia or its individual territories.

Reference

- Wright, D. S. (1978) *Understanding Intergovernmental Relations*. North Scituate, MA: Duxbury Press.

Appendix 1

Table A1.1 Descriptive statistics

<i>Variable</i>	<i>Years</i>	<i>N</i>	<i>Min. and max.</i>	<i>Mean</i>	<i>Standard deviation</i>
A sum of transfers per 10 000 regional residents (in thousands of rubles) ¹	1998–1999	155	3.65–273.12	71.08	39.3
	2000–2003	312	0–435.07	141.34	74.14
	2004–2007	312	0–597.73	216.78	94.49
	2008–2011	312	132.9–1070.8	349.47	128.81
	2012–2015	312	177.35–1113.95	372.8	154.67
	2000–2008	702	0–723.9	194.05	104.53
	2009–2015	546	139.31–1113.95	367.87	145.04

Note

1 The variable was subject to a square root transformation.

Appendix 2

Table A2.1 Results of the regression analysis of annual distribution of intergovernmental budget transfers¹

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
GRP (log)	-36.9** (15.5)		-24.1 (29.7)	-19.1 (30.3)	-51.2 (37.1)	-19.1 (39.9)	-23.2 (41.1)	-79.1* (43.6)	-53.6 (45.7)	
GRP_CHANGE										
INCOME		0.03* (0.02)								-8.9*** (3.1)
PARL_LOYALYU			21.9** (10.9)	18.7* (10.7)		23.3* (13.2)				
PARL_OPPOSIT										
REP	23.2*** (7.6)	38.7*** (11.5)	48.9*** (15.6)	59.6*** (15.1)	64.7*** (17.7)	70.3*** (18.7)	72.7*** (19.2)	65.6*** (21.2)	54.2** (23.1)	89.8*** (24.1)
Constant	137.6*** (32.9)	42.2*** (13.8)	159.6*** (71.1)	185.7** (76.2)	276.4 (95.1)	233.1** (108.9)	221.6* (113.2)	404.4*** (124.9)	365.2*** (134.7)	1205.1*** (332.5)
Adj. R-square	0.2 77	0.13 76	0.14 77	0.18 77	0.18 77	0.17 77	0.17 77	0.19 77	0.09 77	0.2 77
N										
GRP (log)		-61.7 (54.2)	-51.4 (65.2)	-63.6 (61.1)			252.4*** (32.5)	289.1*** (37.5)	260.3*** (39.1)	227.3*** (36.4)
GRP_CHANGE					8.9*** (2.3)					
PARL_LOYALYU										
PARL_OPPOSIT	-49.1** (19.1)		-45.6** (21.9)		-52.9*** (19.5)	-38.2* (22.6)	77.1*** (15.5)	69.7*** (17.8)	58.7*** (18.5)	66.3*** (17.3)
REP		85.9*** (28.5)		96.3*** (30.9)		125.9*** (34.2)				
Constant	209.1*** (42.8)	484.2*** (170.4)	424.1* (226.8)	536.3*** (196.9)	-599.26*** (215.95)	263.5*** (44.9)	-438.1*** (105.5)	-572.5*** (123.7)	-488.8*** (130.5)	-391.9*** (122.7)
Adj. R-square	0.68 77	0.11 77	0.06 77	0.11 77	0.22 77	0.22 77	0.5 77	0.47 77	0.39 77	0.39 77
N										

Note

¹ Dependent variable is the volume of annual budget transfers from the federal budget to regional budgets per 10 000 regional residents.

Appendix 3

Table A3.1 Results of the regression analysis of distribution of annual intergovernmental budget transfers grouped in periods¹

	1998–1999	2000–2003	2004–2007	2008–2011	2012–2015
GRP (log)					
GRP_CHANGE	-0.99* (0.6)		-12.8** (5.5)		260.6*** (17.9)
INCOME		0.01** (0.003)	-3.6*** (1.3)	-1.7* (0.9)	
PRES_LOYALTY				0.003*** (0.001)	0.003*** (0.001)
PRES_OPPOSIT			18.02** (7.5)	21.7*** (6.9)	15.8*** (5.35)
PARL_LOYALTY		13.1* (7.1)			-7.4* (4.4)
PARL_OPPOSIT				-58.5*** (10.5)	-37.1*** (10.8)
TRANS_PREV			0.01*** (0.2)	0.7*** (0.1)	0.9*** (0.02)
REP	31.5*** (6.8)	70.0*** (8.96)	77.2*** (11.3)	24.6*** (9.3)	15.8*** (6.1)
Constant	155.9*** (55.9)	141.5*** (10.5)	583.3*** (136.4)	499.1*** (127.9)	205.2*** (27.6)
					23.1** (9.9)
Adj. R-square	0.13	0.02	0.04	0.16	0.51
N	154	311	311	311	311
					0.88
					0.18
					311
					0.45
					311
					0.92
					311

Note

¹ Dependent variable is the volume of annual budget transfers from the federal budget to regional budgets per 10 000 regional residents.

[illegible]

The Socio-economic Development of the Kuril Islands (Sakhalinskaya oblast') in 2007–2015, 2016–2025 (Социально-экономическое развитие Курильских островов (Сахалинская область) на 2007–2015 годы)

The Chechen Republic's Socio-economic Development in 2008–2012 (Социально-экономическое развитие Чеченской Республики на 2008–2012 годы)

The Development of Socio-economic, Ethnic, and Cultural Potential of the Russian Nentsy in 2008–2012 (Развитие социально-экономического и этнокультурного потенциала российских нентцев на 2008–2012годы)

Socio-economic Development of the Republic of Ingushetia in 2010–2016 (Социально-экономического развитие Республики Ингушестан до 2007 года)

Socio-economic Development of the Republic of Crimea and Sevastopol until 2020 (Социально-экономическое развитие Республики Крым и г. Севастополь до 2020 года)

Development of the Republic of Karelia until 2020 (Развитие Республики Карелия на период до 2020 года)

Appendix 5

Excerpt from the Constitution of the Russian Federation¹

Article 71

The jurisdiction of the Russian Federation includes:

- a adoption and amending of the *Constitution* of the Russian Federation and federal laws, control over their observance;
- b federal structure and the territory of the Russian Federation;
- c regulation and protection of the rights and freedoms of man and citizen; citizenship in the Russian Federation, regulation and protection of the rights of national minorities;
- d establishment of the system of federal legislative, executive and judicial bodies, the rules for their organization and activities, formation of federal bodies of state authority;
- e federal state property and its management;
- f establishment of the principles of federal policy and federal programs in the sphere of state, economic, ecological, social, cultural, and national development of the Russian Federation;
- g establishment of the legal basis for a single market; financial, currency, credit, and customs regulation, money issue, the principles of pricing policy; federal economic services, including federal banks;
- h federal budget, federal taxes and dues, federal regional development funds;
- i federal power systems, nuclear power-engineering, fissionable materials, federal transport, railways, information and communication, outer space activities;
- j foreign policy and international relations of the Russian Federation, international treaties and agreements of the Russian Federation, issues of war and peace;
- k foreign economic relations of the Russian Federation;
- l defence and security; military production; determination of rules of selling and purchasing weapons, ammunition, military equipment and other military property; production of poisonous substances, narcotic substances and rules for their use;
- m determination of the status and protection of the state border, territorial sea, air space, exclusive economic zone, and continental shelf of the Russian Federation;

- n judicial system, procurator's office, criminal, criminal procedural and penal legislation, amnesty and pardoning, civil, civil procedural and arbitration procedural legislation, legal regulation of intellectual property;
- o federal law of conflict of laws;
- p meteorological service, standards, metric system, horometry, geodesy and cartography, names of geographical units, official statistics and accounting;
- q state awards and honorary titles of the Russian Federation;
- r federal state service.

Article 72

- 1 The joint jurisdiction of the Russian Federation and the subjects of the Russian Federation includes:
 - a providing for the correspondence of the constitutions and laws of the republics, the charters and other normative legal acts of the territories, regions, cities of federal importance, autonomous region or autonomous areas to the *Constitution* of the Russian Federation and federal laws;
 - b protection of the rights and freedoms of man and citizen; protection of the rights of national minorities; ensuring the rule of law, law and order, public security, and the border zone regime;
 - c issues of possession, use, and disposal of land, subsoil, water, and other natural resources;
 - d delimitation of state property;
 - e utilization of natural resources, protection of the environment and ensuring ecological safety; specially protected natural territories, protection of historical and cultural monuments;
 - f general questions of upbringing, education, science, culture, physical culture and sports;
 - g coordination of issues of health care; protection of the family, maternity, paternity, and childhood; social protection, including social security;
 - h carrying out measures against catastrophes, natural calamities, epidemics, elimination of their aftermath;
 - i establishment of common principles of taxation and dues in the Russian Federation;
 - j administrative, administrative procedural, labor, family, housing, land, water, and forest legislation; legislation on subsoil and environmental protection;
 - k personnel of the judicial and law enforcement agencies; the Bar, notary offices;
 - l protection of the traditional habitat and way of life of small ethnic communities;
 - m establishment of common principles of organization of the system of bodies of state authority and local self-government;

- n coordination of international and foreign economic relations of the subjects of the Russian Federation, fulfillment of international treaties and agreements of the Russian Federation.
- 2 The provisions of this Article shall be equally valid for the republics, territories, regions, cities of federal importance, autonomous regions or autonomous areas.

Note

- 1 This translation of the Russian Constitution was found in “Konstitutsiya RF (Proekt Prezidenta)” (The Constitution of the Russian Federation (the President’s Project)), *Konstitutsii RF (Alternativnye Proekty)*, vol. 2, Moscow, 1993.

Appendix 6

List of indicators for assessing the effectiveness of the executives of subnational units of the Russian Federation (since 2012)

- 1 Life expectancy at birth (years)
- 2 Population (persons)
- 3 Volume of investments in fixed capital (excluding budgetary funds) (thousand rubles)
- 4 Turnover of products/services produced by small enterprises, including microenterprises, and individual entrepreneurs (thousand rubles)
- 5 Volume of tax and non-tax revenues of the consolidated budget of the subnational unit of the Russian Federation (thousand rubles)
- 6 Average unemployment rate for the year (percent)
- 7 Real disposable income of the population (percent)
- 8 Share of the total area of new residential buildings in relation to the total area of the housing stock (percent)
- 9 Share of graduates of state (municipal) secondary education institutions who did not pass the Unified State Exam, in the total number of graduates of state (municipal) secondary educational institutions (percent)
- 10 Mortality (number of deaths per 100 000 people)
- 11 Population's approval of the activities of the executive of the subnational unit of the Russian Federation (percent)
- 12 Share of children left without parental care, including those transferred to non-relatives (foster families, adoption, trusteeship, guardianship, family children's homes and foster families) located in state/municipal institutions of all types (percent)

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